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Outlook and Situation Report

East Asian market tops Western Europe for first time, page 21.

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Summary

The world economy could grow at least 4 percent this year, following 4 years of under 2 percent. The United States will lead the industrialized countries. Major foreign industrialized economies are experiencing increases in exports and smaller gains in investment and personal consumption. Inflation in the foreign industrialized countries continues to decline, reflecting slower growth in money supplies, plus weak demand in some countries. Financial flows into the developing countries (LDC's) have climbed, and continued expansion of exports from the non-oil LDC's should boost their economic growth.

Although foreign interest rates rose during the summer, U.S. rates advanced even more. This led to new highs against the German mark, British pound, French franc, Italian lira, and Canadian dollar. If U.S. interest rates decline in coming months, the foreign exchange value of the dollar likely would begin to erode. A stabilizing or gradually falling dollar would improve U.S. agricultural export prospects.

U.S. agricultural exports may reach $38 billion in FY 84, up 9 percent from last year. Coarse grain sales will lead the advance, while volume for soybeans and products will be smaller. Agricultural imports are estimated at $18 billion, up 10 percent. The trade balance will be $20 billion, up almost 9 percent.

The four countries of East Asia (South Korea, Taiwan, Hong Kong, and Japan) are expected to become the number one U.S. agricultural market this fiscal year. The region may purchase $10.9 billion in U.S. farm products, compared with only $9.7 billion for all of Western Europe. The switch comes from East Asia's rapid economic growth and limited capacity to expand agricultural output, and from Europe's Common Agricultural Policy (CAP), which has stimulated European output and exports, but reduced import demand for agricultural products, including those from the United States.

The European Community (EC) has modified its CAP to help control surpluses and costs. However, even with restrictive pricing and quotas on milk deliveries, it will still produce large dairy surpluses and dominate world markets. Increased funding will allow the EC to keep expanding its subsidized exports, while proposals to restrict various imports would benefit the EC budget at the expense of other countries. But recent changes are not likely to greatly affect the EC's overall production or surpluses of most agricultural products.

WORLD ECONOMIC CONDITIONS

Global Assessment

Projected World Growth at a 6-Year High

The world economy could achieve an annual growth rate of at least 4 percent this year—its highest since 1978—following 4 years of under 2 percent. Growth in the major foreign industrialized economies—Canada, Japan, France, Germany, Italy, the Netherlands, and the United Kingdom (U.K.)—is being accompanied by large increases in exports and smaller gains in investment and personal consumption. Governments are restraining expenditures to reduce fiscal deficits or increase surpluses. Inflation rates are continuing to decline on average, reflecting a general slowdown in the growth of money supplies and weak demand in some countries. Economic growth in foreign industrialized economies, given slow growth in fiscal expenditures and money supplies, will average around 3 percent. Japan, Canada, and the U.K. are leading the foreign recovery, while continental Europe is lagging behind.

The developing countries (LDC's) appear to be benefiting from recovery in the industrialized nations through increased export earnings and financial inflows. Exports from the non-oil LDC's began increasing in the fourth quarter of 1982, accelerated through 1983, and have probably continued to rise in early 1984. Financial inflows into the LDC's accelerated in the first quarter of 1984, to their highest rate in 2 years. Continuing acceleration of financial inflows will help ease the foreign exchange constraints that forced some countries to severely curtail imports.

The expected acceleration in export sales will likely boost economic growth in the LDC regions. In its 1984 World Economic Outlook, the International Monetary Fund (IMF) projected that exports of non-oil producing LDC's would increase 10 percent this year, up from less than 4 in 1983. Economic growth in LDC's will likely respond favorably. The IMF projects that economic growth in Asia will be 6 percent in 1984, down slightly from the 6.5 in 1983; in Africa, 3.5, up from 0.1 in 1983; and in Latin America, 1.3, up from -2.3.

Major Economies in Flux

Recoveries among the major industrialized economies continue to occur at varied rates. Japan, Canada, and the U.K. still lead the foreign recovery while most European countries lag. The U.S. growth rate will likely be far higher than in any other industrialized nation. In its latest *Economic Outlook*, the Organization for Economic Cooperation and Development (OECD) projected that growth for all its member countries would average 4.3 percent this year. The OECD attributes much of this overall growth to the U.S. expansion; members' projected rate, excluding the United States, is only 3 percent.

Still, that growth would be one full point above 1983 and the highest since 1979. Most of the foreign growth will likely be in export sales. Recent data support the OECD's projection that exports will continue to be the strength of the 1984 expansion. Exports have risen at an average 15 percent for all major foreign economies in the first 4 months of this year, compared with a year earlier. Export growth can be attributed to increases in imports by virtually all industrialized nations, especially the United States. Exports to LDC markets have probably not increased much, if at all. If 1984 exports remain at first-quarter levels, the yearend total will be 7 percent higher than 1983.

Domestic demand will probably remain fairly weak in most foreign economies, except perhaps in Canada, Japan, and the U.K. Recent data for retail sales show a lot of volatility in most European countries, with some months of actual declines. Low growth in domestic demand is probably due to continuing high unemployment.

Inflation in the foreign industrialized countries will probably continue its downward course into next year. The OECD projects that inflation—measured by the private consumption deflators of each country—will drop to 6 percent in 1984 from 6.7 in 1983, and to 5.5 in 1985. For Japan, Canada, France, Germany, Italy, the Netherlands, and the U.K., inflation continued declining in May, for the third consecutive month, and brought that average rate to 4.4 percent—only 0.2 higher than the U.S. rate. Slower increases in labor costs and still weak consumer demand have contributed to the decline. The steepest decline in inflation during the last 6 months has been in France, where austerity measures have helped reduce the rate from 10.2 percent last October to 7.8 in April.

Growth in the money supply for the major industrialized foreign countries for the year ending in March 1984 declined to 5.7 percent from 9.3 for the year ending in December 1983. Data for April and May suggest that the relatively lower rate is being continued, which could keep the average for second-quarter 1984 the same as for the first quarter. If so, current money supply growth would support the assumption that foreign authorities will continue to dampen monetary growth through 1985, and that inflationary pressure will remain under control as long as the monetary aggregates do.

Unemployment rates appear to be stabilizing and have actually declined in some European countries. The average monthly increase for the major European countries—France, Germany, Italy, the Netherlands, and the U.K.—slowed substantially in the first half of this year from the second half of 1983. By June 1984, average unemployment for the major European countries was below the February peak, but a definite downward trend has not yet been established.

Two factors helped stabilize unemployment rates. First, the 15-percent growth in exports maintained employment above what it otherwise would be and boosted production. Second, increases in labor costs began slowing appreciably in 1983. Quarter-to-quarter increases in wages, which averaged 3 to 4 percent in 1980 and 1981, slowed to 2 to 3 percent by early 1983 and to 1 percent by the fourth quarter of 1983. This slowdown reduces the cost of labor and is a likely incentive to employers to maintain their work forces. Despite the recent slowdown, European wages increased some 10-percent faster than U.S. wages from 1980 to the fourth quarter of 1983.

Discouraging trends include a persistent weakness in consumer demand, a recent decline in industrial production, and an upswing in interest rates. Sluggish domestic demand resulted in flagging rates of industrial production during the last several months: the 3-month moving average of industrial production for Europe was negative in May for the second straight month. The 4-percent decline, following a 2-percent decline in April, may be due partly to labor strikes in Germany and the U.K., but largely reflects fundamental weaknesses in internal demand and still high labor costs. Similarly, in Canada the 3-month moving average dropped to -0.3 in April, from average increases of 16 to 23 percent during mid-1983.

Foreign interest rates advanced again through mid-July in response to even larger increases in U.S. rates. July marked the third straight month of foreign interest rate increases. This trend may signal that foreign monetary institutions, except those in Japan and Germany where interest rates remain stable, have stopped attempting to maintain an interest rate policy independent of the United States. The rising value of the dollar, especially against the Canadian dollar and the British pound, seems to have forced foreign authorities to raise interest rates to stem capital outflows.

LDC Exports and Capital Inflows Advance

After more than 2 years of generally deteriorating economic conditions, economic fortunes in many LDC's appear to be improving, if only slowly. Foreign exchange constraints that forced many LDC's to reduce import expenditures may be eased somewhat by accelerations in export sales and capital inflows from western banks. Both are critical to resolving the LDC debt problem.

LDC exports to the OECD members increased an estimated 5 percent in the first quarter of 1984, the second straight quarter of 5-percent growth and the fifth of improvement—following four quarters of decline. Much of this gain is due to increases in export prices. Prices for internationally traded primary commodities, upon which many LDC's depend for a large share or majority of exports, rose 18 percent from fourth-quarter 1982 to first-quarter 1984. Continuing export gains may depend more on increases in trade volumes; commodity prices declined an estimated 5 percent during second-quarter 1984.

Foreign bank loans—a proxy for capital inflows—to LDC's increased almost 3 percent in the fourth quarter of 1983 from the previous quarter. This increase was the largest since the fourth quarter of 1981 and was 3 times the average quarterly increase in the intervening period. Bankers may be willing to increase their exposure to LDC's roughly 7 percent in 1984, according to statements made in the financial press. Such an increase in exposure, $42 billion, suggests a quarterly growth rate of only 1.8 percent—one full point below the rate for the fourth quarter of 1983. If the increase in bank loans to LDC's continues at the fourth-quarter 1983 rate, the 1984 figure will exceed the 7-percent projection some $30 billion, for a growth rate of 13 percent. Higher rates of growth of exports and bank loans will help offset the increased debt-servicing burden higher interest rates caused. *[Art Morey (202) 447-8470]*

Exchange Rates

Dollar Surges During Summer

The U.S. dollar appreciated strongly against the world's major currencies from early May into August. An almost unbroken string of daily advances led the dollar to its highest point in 11 years relative to the German mark, in 10 months versus the Japanese yen, and in 7 years vis-a-vis the Swiss franc. In addition, U.S. currency habitually rose to records against the British pound, French franc, Canadian dollar, and Italian lira.

The dollar's surge was in response to higher interest rates and rapid economic growth in the United States. A moderation of those two conditions in the last third of 1984 should stall any further dollar advance. A stabilizing or gradually falling dollar would improve U.S. agricultural export prospects.

Interest Rates Fuel Dollar Advance

The sharp increase in interest rates payable on dollar deposits in U.S. and Eurocurrency markets was the primary factor behind the appreciation of the dollar from May to the end of July. The 6-month London interbank offered rate on dollar deposits rose from 11.5 percent in early May to 13 by the beginning of July. Despite interest rate increases in other countries, the dollar managed to increase its advantage over similar assets held in alternative currencies.

The robust U.S. economy led many foreign exchange traders to anticipate high and rising interest rates. This expectation rested on the belief that the combination of rapid growth and Government borrowing would put considerable pressure on credit markets. As a result, positive economic news such as increased housing starts, rising industrial production, and lower unemployment fueled an advancing dollar.

The attraction of high interest rates on U.S. dollar-denominated instruments was further reinforced by continued low inflation. First, rising nominal interest rates led to rising real rates of return. The U.S. dollar now promises the highest real earnings of any major currency. Second, the inflationary expectations of February and March (a major reason for the dollar's decline during that period) were clearly dashed. Those who had gone short in dollars early in the year were forced to square their positions in bull markets, adding to an already healthy demand for dollars.

Rising Dollar Helps Depress Prices

When the dollar appreciates, domestic prices generally fall as U.S. exporters, responding to declining export demand, attempt to remain competitive in the world market. Exports of soybeans and corn are particularly sensitive to foreign prices. Movements of exports resulting from changes in exchange rates are therefore particularly noticeable. The sharp rise in the value of the U.S. dollar exacerbated price declines already in evidence, the result of rising world production estimates following short U.S. 1983/84 corn and soybean crops.

Dollar To Decline Through November

Expected declines in interest rates, accompanying slower economic growth, should begin to erode the dollar's general foreign exchange value before the last quarter of 1984. Any drop in the price of U.S. currency should be far less dramatic than the rapid depreciation of January through March of this year. First, many were caught unaware by the dollar's underlying strength, and suffered significant losses. Thus, traders and major banks will be much less anxious to divest themselves of "excess" dollars. Second, a clear trend in declining dollar interest rates will be the only factor that will consistently lead to preferences for other monies. This must be combined with a narrowing differential between returns on dollar assets and those denominated in other currencies. Such is by no means certain: if the U.S. economy continues on a strong growth path and if the budget deficit is viewed as pressuring credit markets, any gains by other currencies may well prove temporary.

The forthcoming U.S. election should also affect the foreign exchange value of the dollar. Any degree of uncertainty makes a currency less desirable; potential policy changes that would affect the economy and interest rates will make traders (and others holding foreign exchange) wary of taking excessive positions in any type of money or instrument.

The Canadian dollar is already benefiting from high interest rates available in Canada, as well as a strong economy. Many believe that rates of return there will remain higher than on similar investments in the United States. Hence, the Canadian dollar is expected to rise to 78 U.S. cents by early November, above its low of 76 cents for the year. The Japanese yen will begin to benefit from the scheduled opening of selected capital markets to outside interests, as well as expanded use of that currency for reserve purposes. The yen is expected to rise to between 232 and 235 per dollar by November. The increased international use of yen will affect the value of German marks as a potential alternative to U.S. dollars. Immediately, given no change in interest rates in West Germany, some appreciation is expected in the mark until the start of November. The most likely range is between 2.75 and 2.8 per dollar.

The British pound will almost certainly continue to decline. The most fundamental support for sterling comes from petroleum revenues, which are forecast to drop with the continued fall in oil prices. In addition, interest rates in the U.K. have remained well below those in the United States and Canada. Poor prospects for economic growth make Britain a comparatively unattractive investment opportunity. A decline in the pound to below $1.25 by the end of 1984 would not be surprising. *[David Stallings (202) 447-8054]*

Foreign currency units per U.S. dollar

Year	Mark	Yen	Pound	Guilder	C. Dollar
1979	1.833	219.2	.4713	2.006	1.171
1980	1.818	226.4	.4299	1.987	1.169
1981	2.257	220.2	.4983	2.492	1.199
1982	2.427	248.8	.5722	2.669	1.234
1983	2.553	237.5	.6592	2.854	1.232
1984					
Jan.	2.810	233.7	.7102	3.158	1.248
Feb.	2.698	233.5	.6931	3.043	1.248
Mar.	2.596	225.2	.6864	2.931	1.269
Apr.	2.647	225.2	.7036	2.984	1.279
May	2.745	229.0	.7250	3.105	1.310
June	2.738	233.4	.7257	3.085	1.304
July	2.849	243.0	.7572	3.213	1.323
Aug.[1]	2.870	241.8	.7590	3.230	1.305

[1]Preliminary.

Fertilizer

Demand Strengthened During 1984

World demand for fertilizers strengthened significantly during 1984, following 2 years of declining prices and stagnant consumption. From the viewpoint of U.S. fertilizer manufacturers and distributors, the low point in their market was reached during June-August 1983. Prices and sales have risen since then, especially in early 1984. International prices lagged somewhat, turned cautiously firm last February, and more recently have been strong, particularly in nitrogenous fertilizers. Further strengthening this year should be moderate. The areas planted to grains worldwide increased only slightly during 1984/85 and international food prices recently weakened, being only roughly 6 percent higher than a year earlier. The large crop harvests anticipated in North America this fall should dampen near-term fertilizer price expectations, at least in the first half of the fertilizer marketing year, which began in July.

Global consumption of all chemical fertilizers during 1982/83 declined slightly. Small increases in nitrogen use were offset by decreases in phosphatic fertilizers and potash (Food and Agriculture Organization of the United Nations/Fertilizer Industry Advisory Council estimate of March 9, 1984). Although this stagnation in worldwide fertilizer use was attributed entirely to reduced consumption in North America last year, growth in demand in other markets also moderated appreciably, compared with trends during the late 1970's. Effective demand for chemical fertilizers reflected fluctuations in world grain planting: projected harvested areas during 1984/85 are up 1.5 percent relative to the previous year, but down 0.7 from 1980/81-1982/83 average. Essentially all the marginal increase in harvested area will be in the United States.

Slower Growth Foreseen

Several factors should limit further increases in fertilizer prices and/or consumption through early 1985. Worldwide production capacity for fertilizer manufacturing is ample and further near-term expansions in the LDC's are assured. Food commodity prices should not show sufficient strength to stimulate more than modest increases in demand for fertilizers. International prices for agricultural raw materials recently weakened further, down some 20 percent below a year earlier, and down more than 4 during June alone. Finally, general inflationary pressures in many important fertilizer producing and consuming areas are notably less than a year ago. So further selective, modest retrenchments in fertilizer price gains achieved during the past 12 months are probable. Import prices in food-deficit countries should remain comparatively firm, however. Global consumption of nitrogenous and phosphatic fertilizers in particular is expected to increase moderately during the next few years. *[Richard C. Taylor (202) 447-8106]*

U.S. AGRICULTURAL TRADE

U.S. agricultural exports during the first 9 months of FY 84 rose 12 percent to almost $30 billion and may reach $38 billion for the year, a 9-percent increase over 1983. The strong U.S. dollar and economic recovery, along with tight oilseeds and products supplies contribute to an estimated decline in U.S. exports to 141 million tons in FY 84. The agricultural trade balance is projected to increase almost 9 percent to $20 billion.

U.S. agricultural export values[1]

Commodity	1981	1982	1983	1984[2]
		Billion dollars		
Grains and feeds	21.9	17.6	15.2	17.2
Wheat and products	8.1	7.7	6.2	6.3
Rice	1.5	1.1	.9	.9
Feed grains and products	10.5	7.0	6.7	8.6
Oilseeds and products	9.3	9.5	8.9	9.4
Soybean cake and meal	1.6	1.5	1.4	1.2
Soybeans	6.0	6.5	5.9	6.4
Soybean oil	.5	.5	.5	.6
Livestock products	3.1	3.2	3.0	3.1
Poultry products	.8	.6	.5	.4
Dairy products	.2	.4	.4	.4
Horticultural products	3.1	2.9	2.7	2.6
Cotton, incl. linters	2.2	2.2	1.7	2.4
Tobacco	1.3	1.5	1.5	1.4
Other	1.9	1.2	.9	1.1
Total	43.8	39.1	34.8	38.0

[1]Fiscal year. [2]Forecast.

U.S. agricultural imports rose 20 percent during October-June and are expected to reach $18 billion in FY 84, from $16.4 billion last year. Imports of sugar, coffee, cocoa, and rubber increased, offsetting a decline in livestock and dairy products. Vegetable and fruit imports have also been strong through June, up 18 and 12 percent.

U.S. agricultural exports to the USSR may reach $2.3 billion in FY 84, up from $1 billion last year. As a result of the recent wave of Soviet grain buying, U.S. grain shipments and outstanding sales to the Soviet Union exceed 13 million tons in FY 84. Also, the Soviets have purchased significant amounts of U.S. grain towards the second year of the grain agreement, and may be taking advantage of favorable prices to rebuild stocks.

The United States continues to face stiff competition in the world grain market. High-priced U.S. corn must compete with increased sales of weather-damaged Australian and denatured and low-quality European Community (EC) wheat. Australia has already sold over 2 million tons of feed wheat to South Korea, South Africa, and Mexico, displacing some U.S. corn. As global coarse grain supplies recover in 1984, feed wheat's price advantage over other grains will diminish. However, U.S. corn sales to the EC will continue to erode because of the EC's policy of replacing imported coarse grains with domestic wheat and nongrain feed ingredients. Exports of U.S. coarse grain rose 5 percent to 43.9 million tons during the first 9 months and are estimated at 55.4 million in FY 84, compared with 53.8 last year. Corn sales to the USSR and South Africa offset declining exports to Mexico and South Korea.

U.S. agricultural export volume[1]

Commodity	1981	1982	1983	1984[2]
		Million metric tons		
Wheat	42.2	44.6	36.7	37.7
Wheat flour	.9	.7	1.5	1.2
Coarse grains	69.0	57.9	53.8	55.4
Rice	3.2	2.9	2.3	2.0
Feeds and fodders	5.8	6.0	7.0	7.0
Soybeans	20.0	25.5	24.5	20.6
Soybean meal	6.1	6.3	6.4	4.9
Soybean oil	.7	.9	.9	.8
Other oilcake and meal	.4	.3	.2	.3
Sunflowerseed	1.4	1.5	1.4	1.0
Sunflowerseed oil	.3	.1	.2	.2
Cotton, including linters	1.3	1.6	1.2	1.5
Tobacco	.3	.3	.2	.2
Horticultural Products	3.4	3.1	3.0	2.9
Beef, pork, & variety meats	.4	.4	.4	.4
Poultry meat	.4	.3	.3	.2
Animal fats	1.5	1.5	1.4	1.4
Other	5.0	4.0	3.4	3.3
Total	162.3	157.9	144.8	141.0

[1]Fiscal year, actual export tonnages. Excludes animal numbers and some commodities reported in cases, pieces, dozens, liquid measures, etc. [2]Forecast.

U.S. wheat exports during October-June declined slightly to 27.5 million tons from a year earlier, but are forecast to rise to 37.7 million for the year, with sharp increases in recent sales to the USSR. Wheat exports declined to Brazil, India, and the EC. U.S. wheat exports to India through June fell 70 percent, cut by a bumper grain crop and large stocks, and are forecast at 1.3 million tons in FY 84, compared with almost 4 million last year. Wheat exports to the EC, already down 20 percent, are also expected to remain depressed in FY 84 due to competition from domestic wheat. In contrast, U.S. wheat exports increased 18 percent to the Middle East and 60 percent to China.

While the volume of U.S. soybean exports continues to fall, the value remains strong and could hit $6.1 billion. Traditional U.S. customers have switched from high-priced U.S. soybeans to cheaper livestock feeds. Soybean exports to Western Europe, usually 30 percent of total U.S. foreign soybean sales, will be down over 5 million tons from 15.7 million shipped in FY 83. U.S. soybeans have had to compete with EC-produced wheat and other feed ingredients. Japan, the largest single market for U.S. soybeans, has cut its imports 8 percent, and exports in FY 84 will fall from the record 4.7 million tons exported last year. Exports to Mexico, an active market for U.S. soybeans this year, reached 1.1 million tons during October-June, compared with less than 700,000 a year earlier.

U.S. cotton exports increased 38 percent to 1.2 million tons through June, and are estimated to reach 1.5 million by the end of FY 84. Strong exports continue to Asia, Western Europe, and the USSR. Cotton exports to Asia have risen 33 percent so far this year and are expected to surpass 1 million tons. Exports to Western

Europe were 61 percent ahead of last year and should account for close to 15 percent of U.S. cotton exports. Strong demand, especially in France and Italy, can be attributed to rising European textile exports and limited exportable supplies from the USSR, Europe's traditional supplier. Cotton exports to the USSR have risen 50 percent and already exceed 100,000 tons in FY 84.

For FY 85, U.S. agricultural exports may increase modestly in volume, but decline slightly in value. The volume of wheat, coarse grain, and soybean exports is likely to increase somewhat. Rice may show little change, and cotton exports will decline. A continued strengthening of some foreign economies could modestly expand import demand for agricultural products. However, the strength of the U.S. dollar, foreign debt problems in many LDC's, and subsidized competitor exports, especially from the EC, will play an important role in shaping the FY 85 export outlook. *[Pat Haslach (202) 447-8841]*

WORLD COMMODITY DEVELOPMENTS

Wheat and Rice

World supplies of wheat and rice in 1984/85 are forecast to rise only 1 percent because of reduced output in several large producers. Consumption may exceed production, drawing down stocks. Global 1984/85 wheat trade is expected to be a record, while rice trade in calendar 1985 could shrink. The U.S. wheat export market share will likely increase, but rice exports could be near a 10-year low. Export prices are expected to be down slightly from 1983/84.

The 1984/85 wheat situation is expected to resemble the previous 2 years: record global production and consumption. Ending stocks, though, will fall for the first time since 1980/81. World trade is anticipated to increase marginally to 103 million tons, while major exporters' output will decline, but with ample stocks, global exportable supplies are still abundant.

Wheat Output Mixed

The Northern Hemisphere's winter wheat harvest is nearing completion and the weather has caused mixed results. U.S. winter wheat production is estimated at 55.7 million tons. Area is up but yields will not match last year's record. The total U.S. crop may be 68.8 million tons. Output in the two largest wheat producers—the USSR and China—is mixed. Expected USSR 1984/85 wheat production, at 80 million tons, is below previous expectations, but still 2 million above 1983/84. Ideal weather and larger planted area in China has prompted a 4-million-ton increase from 1983/84. Output has doubled in 7 years, primarily because of increased yields.

Record area and yields in the EC will boost production nearly 10 percent. Canada plants most of its crop in the spring and spring wheat area is down 5 percent because of some switching to other crops, such as rapeseed. The reduced planting and dry weather throughout the western grain belt has reduced wheat production prospects to only 20.2 million tons, versus the 26.9-million record last year.

In the Southern Hemisphere, winter wheat sowing has been completed. Moisture supplies were minimal in the eastern half of Australia during planting, but were adequate in South and Western Australia. Wet weather delayed plantings up to a month beyond the optimal period in some areas of New South Wales and Victoria. Recent rains have helped newly emerging wheat throughout Australia. A crop of 16.5 million tons is forecast, compared with last year's record 21.8 million. Argentina's crop has also suffered from poor weather, with some areas too wet while others are dry. At 10.5 million tons, the crop is lower than previous expectations, but will still be large.

Feed Wheat Use High in 1984/85

Global feed use of wheat (excluding the USSR) increased about 40 percent (18 million tons) in 1983/84 from the 1980/81-1982/83 average and may maintain this higher level in 1984/85. Wheat feed use in the United States has shot up from 5.3 million tons in 1981/82 to 10.2 million in 1983/84. The sudden surge in feeding can be attributed to the short 1983 corn crop and subsequent high corn prices. For FY 84, average U.S. export prices for wheat and corn are forecast at $160 and $150 a ton, respectively. In recent years, wheat has received about a $40-a-ton premium over corn. These prices have been transmitted abroad since the United States is the world's price setter. EC wheat feeding increased dramatically, and other countries are importing wheat for feed rather than the relatively more expensive coarse grains. Australia was able to supply a large portion of feed wheat to South Africa, South Korea, Bangladesh, and Mexico, as wet weather during Australia's harvest resulted in substantial supplies of lower quality wheat.

Wheat Imports Inch Up

Wheat imports are forecast at a record 103 million tons (July/June, excluding intra-EC trade) in 1984/85. In the 1970's, trade increased about 3 to 4 million tons a year, but has been fairly stagnant since 1981. The global economic recession, the high value of the dollar relative to foreign currencies, foreign exchange shortages, high debts, reduced foreign consumer subsidies, and increased production have limited trade.

In 1984/85, the USSR may import 24 million tons, 4 million above the current record. The USSR has purchased heavily early in the season, principally from the United States. North Africa and the Middle East, primarily Morocco, Syria, Iran, and Iraq, are expected to import significantly more. Despite another record crop, China may also increase imports because of various long-term agreements. Lower imports are expected in many countries in Europe and Latin America, but the largest reduction is expected in India, because of record production and stocks. Indian imports may decline from 2.5 million tons of commercial sales last year to only about 50,000 of donations.

Wheat: World production, consumption, and net exports[1]

Country	1982/83 Prod.	1982/83 Cons.	1982/83 Net exports	1983/84 Prod.	1983/84 Cons.	1983/84 Net exports	1984/85[2] Prod.	1984/85[2] Cons.	1984/85[2] Net exports
					Million metric tons				
Major exporters									
United States	75.3	24.7	39.7	65.9	30.3	38.7	68.8	30.4	40.0
Canada	26.8	5.1	21.2	26.9	5.3	20.4	20.2	5.2	18.7
Australia	8.9	4.1	8.1	21.8	3.3	12.2	16.5	3.4	15.0
EC-10	59.8	44.5	12.3	59.3	49.1	11.2	65.5	49.9	15.6
Argentina	14.5	4.5	7.5	12.0	4.5	9.5	10.5	4.5	6.5
Turkey	13.8	13.7	.5	13.3	13.6	.4	13.3	13.7	−.3
Major importers									
USSR	86.0	105.7	−19.7	78.0	95.0	−20.0	80.0	103.0	−23.0
China	68.4	81.4	−13.0	81.4	91.4	−10.0	84.0	95.0	−11.0
Eastern Europe	34.7	36.8	−2.0	35.3	36.9	−2.0	35.6	37.4	−1.9
Other W. Europe	8.5	9.1	+.3	8.8	9.8	−.3	10.3	9.8	−.5
Brazil	1.8	6.3	−3.6	2.1	6.5	−4.5	2.0	6.3	−4.2
Mexico	4.2	4.1	—	3.2	4.2	−.6	4.2	4.2	−.5
Other Latin Am.	1.4	7.6	−6.4	1.6	8.5	−7.1	1.8	8.6	−6.7
Japan	.7	6.1	−5.5	.7	6.1	−5.3	.6	6.1	−5.4
India	37.5	37.8	−3.6	42.5	41.7	−2.5	44.6	44.3	−.1
South Korea	.1	2.0	−1.9	.1	2.4	−2.4	0	2.5	−2.4
Indonesia	0	1.5	−1.5	0	1.6	−1.7	0	1.7	−1.7
Other Asia	16.9	23.3	−6.6	18.1	24.3	−6.7	16.8	24.3	−6.9
Egypt	2.0	7.8	−5.3	2.0	8.0	−6.8	2.0	8.2	−6.8
Morocco	2.2	3.8	−1.3	2.0	4.1	−2.0	1.7	4.2	−2.6
Other N. Africa/ Mideast	12.2	23.3	−10.6	12.0	25.2	−13.5	10.1	25.1	−14.6
Other Africa	3.7	7.2	−3.7	2.9	7.6	−4.1	3.0	7.6	−4.8
Residual	.2	8.1	−4.9	.2	5.7	−2.9	.3	4.2	−2.4
World	479.6	468.5		490.1	485.1		491.8	499.6	

— = negligible. [1]Trade on July-June years. [2]Forecast.

Rice: World production, consumption, and net exports[1]

Country	1982/83 Prod.	1982/83 Cons.	1982/83 Net exports	1983/84 Prod.	1983/84 Cons.	1983/84 Net exports	1984/85[2] Prod.	1984/85[2] Cons.	1984/85[2] Net exports
					Million metric tons				
Major exporters									
United States	4.9	2.1	2.3	3.2	2.1	2.0	4.4	2.3	2.0
Thailand	11.1	8.0	3.7	12.4	8.2	4.1	12.2	8.2	3.9
Pakistan	3.4	2.3	1.3	3.5	2.3	1.3	3.5	2.4	1.2
China	112.9	112.4	.5	118.2	117.7	.5	119.0	118.4	.6
India	46.5	48.4	−.1	59.0	56.9	−.6	57.3	57.8	−.4
Burma	9.1	8.3	.8	9.3	8.4	.9	9.4	8.5	.9
Japan	9.3	10.8	.3	9.4	9.8	0	10.1	9.7	0
Italy	.6	.3	.3	.7	.3	.4	.7	.3	.4
Australia	.4	.1	.3	.5	.1	.4	.6	.1	.5
Major importers									
Indonesia	22.8	23.7	−1.2	23.5	24.7	−.5	24.5	25.9	−.8
South Korea	5.2	5.3	−.2	5.1	5.4	0	5.1	5.3	−.1
Bangladesh	14.2	14.6	−.1	14.6	14.9	−.5	14.4	15.0	−.4
Vietnam	9.0	8.8	+.1	9.1	9.1	0	9.0	8.9	+.1
Other Asia	16.7	17.4	−.6	17.2	18.2	−.9	17.5	18.5	−.6
USSR	1.6	1.9	−.3	1.6	2.0	−.4	1.6	1.9	−.3
Brazil	5.3	6.2	−.4	6.1	6.2	−.1	6.5	6.3	−.1
Other Latin Am.	4.8	4.8	−.1	4.6	4.9	+.2	5.0	4.8	+.2
Iran	.9	1.5	−.7	.9	1.6	−.7	.9	1.6	−.7
Other N. Africa/ Mideast	2.0	3.6	−1.8	2.0	3.7	−1.7	2.0	3.8	−1.8
Malagasy	1.3	1.5	−.3	1.3	1.5	−.2	1.3	1.5	−.3
Nigeria	.9	1.6	−.7	.9	1.6	−.8	.9	1.7	−.8
Other Africa	1.8	3.6	−2.0	1.7	3.6	−2.0	1.8	3.8	−2.0
Residual	.7	2.6	−1.1	.5	2.2	−1.4	.5	2.2	−1.5
World	285.4	289.8		305.3	305.4		308.2	308.9	

[1]Trade on calendar years; calendar 1982 corresponds to 1981/82. [2]Forecast.

With lower production forecasts for Canada, Australia, and Argentina, 1984/85 export competition may not be as fierce. While large opening stocks will allow Australian exports to increase, lower Argentine production will translate into lower exports. With reduced production, Canadian exports will fall also, trimming stocks to minimal levels. Slightly higher global trade and a drop in foreign exports mean U.S. exports may show their first increase in 2 years—up over 1 million tons from last year to 40.1 million. However, the export market share will still be below the 25-year average of 43 percent.

Larger Rice Output Expected

World milled rice production is forecast at 308.2 million tons in 1984/85, up 2.9 million from last year. Weather has been generally favorable throughout Asia, with record or near-record output anticipated for the major foreign rice producers and exporters—China, Thailand, Burma, and Pakistan. U.S. production may rise more than a third to 4.4 million tons, but will remain below 1982's record 4.9 million.

1985 Rice Trade To Slip

Global rice trade has been larger than expected this summer and the calendar 1984 estimate was raised to 12.1 million tons. Import forecasts for Bangladesh, India, Japan, and the Philippines were recently increased, prompting larger expected exports for Thailand and Burma. In 1985, global trade may decline to 11.7 million tons, primarily because of smaller purchases by India, Bangladesh, Japan, Mexico, and Brazil.

U.S. 1983/84 and 1984/85 export forecasts remain at 2.0 million tons. World prices substantially below the United States are limiting exports, despite larger concessional sales. About 132,000 tons of rice had been planned for shipment to several drought-stricken African countries under an emergency program authorized by Congress and implemented by the CCC. Late-August cancellations, however, have reduced the total to 86,000 tons. Purchases under this program will be shipped before October and will be in addition to normal commercial purchases and existing food-aid commitments. *[Bradley Karmen (202) 447-8879]*

Coarse Grains

Global coarse grain production is forecast to reach a record in 1984/85, but low carryin stocks will prevent total supply from attaining a new high. Stocks likely will expand significantly as coarse grain use grows more slowly than production. A modest increase in coarse grain trade is forecast, as large Soviet purchases offset reduced import demand from Western Europe.

World Production To Improve

Coarse grain production is forecast at 786 million tons in 1984/85, surpassing 1983/84 about 14 percent or 96 million tons. All of the increase will be U.S. corn and sorghum, as foreign production will decline. Production of major foreign exporters (Canada, Australia, Argentina, South Africa, and Thailand) in 1984/85 is forecast at 62 million tons, up 3 million tons from 1983/84. Much of this 5-percent increase will come from larger South African production, estimated at almost 10 million tons. Although this is substantially above the last 2 years, it is still about 5 million below 1980/81. Also, production prospects in the EC and non-EC West European countries are improved.

Production decreases, however, are forecast for several countries. Australian output is estimated at over 7 million tons, down around 2 million from 1983/84 because of poor weather, but above the 6.5-million-ton average of the last 4 years. Drought-reduced barley yields throughout western Canada will reduce coarse grain production to under 22 million tons. This is slightly above 1983/84, but 3 million short of the 1980/81-1982/83 average.

Soviet Production Poor Again, China Large

The Soviet Union appears headed for an unprecedented sixth consecutive disappointing harvest. Coarse grain production, estimated at only 89 million tons, is well below preliminary 1983/84. In addition, the fodder harvest is lagging somewhat behind a year ago. This, coupled with record livestock inventories and low grain stocks, points to continued dependence on foreign sources for feed supplies. China's production is forecast to match last year's record 93 million tons, despite a recent, modest deterioration in production prospects, particularly corn.

Carryin Stocks Low

Global coarse grain supplies (production plus carryin stocks) for 1984/85 are estimated at more than 850 million tons, about 3 percent larger than 1983/84, but still almost 40 million below 1982/83. Most of the increase will be in the United States—up 13 percent to 264 million tons. Smaller U.S. production in 1983/84 was bolstered by carryin stocks of almost 100 million tons. In contrast, 1984/85's carryin stocks are forecast to be only 28 million tons.

Trade Prospects Continue Mediocre

Estimated world coarse grain trade for 1984/85, at about 96 million tons (excluding intra-EC), is above preliminary 1983/84 but well behind the 1980/81 record. The demand for coarse grain in 1983/84 has been hurt by record wheat supplies with favorable prices relative to corn, which has led to some substitution of wheat for feeding. Although coarse grain prices have declined and should continue falling in 1984/85, a glut of wheat has kept wheat prices low. Thus, the wheat/corn price ratio continues to promote wheat feeding. So, importers may continue to purchase wheat for feeding.

The 1984/85 trade forecast for the major exporters, near 25 million tons, is slightly below 1983/84. This group's coarse grain exports will probably decline marginally because of lower production in some countries, and increased competition from larger U.S. corn supplies. Argentine exports are expected to fall to about 11 million tons, reflecting a lower sorghum crop. Despite smaller production, large carryin stocks will likely permit Australia another year of large exports. Canadian exports, reflecting only a slight increase in production, will likely fall below 5 million tons. Exports from Thailand, estimated at just over 3 million tons, will be about the same as 1983/84.

Coarse grains: World production, consumption, and net exports[1]

Country	1982/83 Prod.	1982/83 Cons.	1982/83 Net exports	1983/84 Prod.	1983/84 Cons.	1983/84 Net exports	1984/85[2] Prod.	1984/85[2] Cons.	1984/85[2] Net exports
	Million metric tons								
Major exporters									
United States	250.7	167.9	53.5	136.7	151.7	55.0	236.1	159.9	59.9
Canada	26.7	18.7	6.3	21.3	18.7	5.2	21.6	18.4	4.2
Australia	3.9	3.1	.9	10.0	3.8	4.6	7.8	3.4	4.3
Argentina	18.2	6.9	11.6	18.2	6.9	12.0	18.0	6.9	11.2
Thailand	3.8	1.3	2.4	4.3	1.2	3.1	4.6	1.3	3.2
South Africa	4.5	8.0	1.5	5.2	7.7	−2.7	9.8	7.8	−1.2
Major importers									
USSR	86.0	98.3	−11.0	105.0	114.5	−13.2	89.0	109.0	−18.0
China	86.0	88.6	−2.4	93.0	93.2	−.2	93.0	94.0	−1.0
Eastern Europe	71.8	71.7	−1.7	67.3	67.9	−1.9	66.7	67.9	−2.1
EC-10	71.6	72.1	−2.2	64.1	68.0	−1.9	68.0	69.7	−2.1
Other W. Europe	21.9	31.3	−8.8	22.0	30.3	−6.6	26.1	30.1	−4.4
Brazil	19.9	21.3	+.4	21.5	21.3	—	23.0	23.1	−.1
Mexico	10.2	18.8	−7.2	14.0	18.6	−5.9	13.6	19.3	−6.0
Venezuela	.9	2.8	−1.3	.7	2.1	−1.5	.7	2.3	−1.7
Other Latin Am.	7.7	10.2	−2.6	7.8	10.1	−2.3	8.4	10.4	−2.1
Japan	.4	19.0	−18.7	.4	19.7	−20.3	.4	20.4	−21.2
Taiwan	.2	4.4	−4.3	.2	4.2	−4.0	.3	4.6	−4.2
South Korea	.9	5.2	−4.1	.9	4.6	−3.8	.7	4.6	−3.8
Other Asia	41.3	43.9	−2.5	48.1	49.7	−2.1	46.4	49.2	−2.2
Egypt	4.1	5.3	−1.5	4.3	5.8	−1.7	4.3	6.1	−1.9
Iran	1.3	2.5	−1.6	1.3	2.4	−1.2	1.3	2.6	−1.3
Israel	.1	1.3	−1.2	—	1.4	−1.3	.1	1.4	−1.3
Other N. Africa/ Mideast	17.4	24.3	−5.0	15.0	22.6	−8.3	14.3	22.5	−8.6
Other Africa	31.7	33.7	−.7	28.1	30.9	−1.5	30.8	34.2	−2.8
Residual	.2	−4.4	+.2	.7	4.1	+.5	.8	2.0	+3.2
World	781.4	756.2		690.1	761.4		785.8	771.1	

— = negligible. [1]Production on crop year basis, trade on October-September year, includes corn, barley, sorghum, oats, millet, rye, and miscellaneous grains. [2]Forecast.

International commodity prices

Year	Wheat: U.S. No. 2[1]	Wheat: Argentina[2]	Wheat: Canada No. 1[3]	Wheat: Australia[4]	Corn: U.S. No. 2 yellow[5]	Corn: Argentina[2]	Soybeans: U.S. No. 3 yellow[5]	Soyoil: Decatur	Soyoil: Dutch[6]	Soymeal 44%: Decatur	Soymeal 44%: Hamburg[6]
	Dollars per metric ton										
1975	149	147	181	167	122	126	210	559	563	141	162
1976	134	128	149	147	115	114	223	414	438	179	203
1977	105	100	116	113	98	93	271	524	579	212	240
1978	131	126	134	119	105	102	259	565	607	189	226
1979	162	159	171	142	118	117	278	610	662	160	254
1980	176	203	192	175	129	159	272	522	598	217	271
1981	176	190	194	175	135	139	272	464	507	223	269
1982	161	166	165	160	110	109	233	404	447	197	233
1983	158	138	167	161	137	133	269	518	524	222	255
1984											
Jan.	153	129	177	153	144	138	292	623	692	222	255
Feb.	151	125	174	148	138	129	281	600	669	205	243
Mar.	155	127	176	151	149	132	304	664	720	216	252
Apr.	158	138	168	154	150	140	303	707	772	208	236
May	154	NA	169	153	147	140	324	852	914	208	226
June	151	144	169	154	147	141	297	785	844	192	210
July[7]	149	145	162	152	146	142	264	671	697	174	191

NA = not available. [1]Hard winter ordinary protein, f.o.b. Gulf ports. [2]F.o.b. Buenos Aires. [3]Western red spring 13.5% protein, in store Thunder Bay. [4]July-June crop year, standard white, f.o.b. selling price. [5]F.o.b. Gulf ports. [6]F.o.b. ex-mill. [7]Preliminary.

Prospects in Western Europe are not bright. Record wheat and barley production, coupled with feeding more domestic grains and imported nongrain feeds, has reduced the demand for imported grains. In fact, the EC may become a net exporter of coarse grains next year. Spain's import demand will fall because of increased domestic production and weak demand for meat.

Mexican imports, almost entirely corn and sorghum, may be up marginally to 6 million tons. Mexico's corn crop this year is still about 3.5 million tons smaller than 1981/82. Taiwan's imports may rebound from 1983/84, while Japanese imports continue to climb.

Larger USSR Imports Expected

Soviet imports may rank among the largest in recent years as their production prospects dim. USSR intentions may be seen in the summer-long flurry of grain buying from the United States. By the end of July, Soviet purchases of corn had already exceeded the minimum specified in the U.S.-USSR long-term grain agreement. In 1984/85, Soviet coarse grain imports may approach record levels.

U.S. coarse grain exports in 1984/85 will show some improvement over 1983/84—up about 5 million tons to 60.7 million. Increased domestic corn supplies and lower prices should allow corn sales to increase. As consumers resume more normal feeding patterns and purchase corn, sorghum sales, estimated at over 6.3 million tons, are likely to match last year. *[Jim Cole (202) 447-8857]*

Oilseeds

Prospects for 1984/85 point to at least a partial turnaround in the tight supplies and strong prices that have governed the world oilseed and edible oil markets since last summer. Record oilseed production and lower prices are expected in 1984/85. However, continued weak protein meal demand and low carryin oil stocks mean oil supplies will remain relatively tight. Thus, while declining from 1983/84, edible oil prices will remain above recent years. Some improvement in U.S. soybean and soybean meal exports are expected in 1984/85.

Oilseed Production To Be Record

World oilseed production is expected to reach a record 186 million tons in 1984/85, up 21.6 million from preliminary 1983/84. Record soybean, rapeseed, cottonseed, sunflowerseed, and palm kernel crops are expected, as well as a near-record peanut outturn. While a rebound in U.S. soybeans will account for much of the expected 13-percent increase in world oilseed production, foreign output may advance around 6 million tons (5 percent). A recovery from drought- and pest-reduced 1983/84 output is expected in Pakistan and many African countries. In addition, plantings have expanded in many countries because of the tight supplies and high prices in 1983/84 and the favorable prospects in 1984/85, compared with some competing crops.

Cottonseed production may increase 3.3 million tons, with the United States accounting for over half the gain. Pakistani output is expected to be up more than 400,000 tons because of a recovery from the bad weather and pest infestation in 1983/84, but well below the 1982/83 record. Brazilian production may be near 1982/83's 1.2 million tons (910,000 in 1983/84), and Peru and Colombia will continue to recover from devastated 1982/83 crops. Soviet outturn is expected to expand 200,000 tons, while China, the world's largest producer, may match 1983/84's record.

For sunflowerseed, increased area and yields in the United States, the EC, and Argentina, plus a doubling of the South African crop, may lead to a 1.9-million-ton worldwide gain. Unfavorable growing conditions will cause another poor USSR crop.

Peanut and rapeseed production may advance 945,000 and 650,000 tons, respectively. For peanuts, the gains will be concentrated in the United States and several African countries. However, output may slip some in India, the world's largest peanut producer. Rapeseed production will advance primarily because of sharply larger planted area in Canada, Poland, and the USSR, plus increased yields in the U.K. and France. Prospective output would be much larger except for unfavorable growing conditions in Canada and China's reduced plantings.

Soybeans To Show the Largest Gains

The sharpest year-to-year increase will be in soybeans, around 14 million tons, with the the United States accounting for most of the gain. U.S. planted area is up 5 million acres and yields will rebound, but production, at 55.4 million tons, will still be more than 6 million below the 1979/80 record. The Brazilian Government recently announced support levels for soybeans and other crops, indicating soybean area may continue to expand. With yields expected to recover from 1983/84, output could advance around 800,000 tons to a record. In Argentina, however, output may decline, as yields slip from 1983/84's unusual high (up 20 percent from the 1980-83 average). Even so, poor planting conditions for wheat may cause producers to plant more soybeans to offset lower returns for wheat.

1984/85 Meal Use To Rebound

Production of protein meals (44 percent equivalent) may be up 5 percent or more in 1984/85, following a 4.1-percent drop in 1983/84. However, increased demand for protein meals will not generate much of the expansion, which will come instead as a byproduct of crushings for greater demand for oils. With 1984/85 crushings up around 5 percent from depressed 1983/84, meal use will expand and some buildup in stocks will occur.

Unlike oilseeds and oils, demand for meal has been weak during much of 1983/84, and prices have steadily declined since peaking in August-October 1983. For example, European (Hamburg) soybean meal prices dropped from $298 a ton in September 1983, to only $191 in July—the lowest monthly average since August 1977. Weak demand for meat and foreign exchange and credit constraints are the major reasons for the weak protein meal demand. Meal demand will continue sluggish for some months, but is expected to show some recovery in the second half of 1984/85, as livestock producers respond to lower feed prices and improved profitability.

Oil Demand Strong

Small U.S. soybean and cotton crops, lower Malaysian palm oil production, a down year in olive oil's 2-year

cycle, continued effects of the 1982-83 Philippine drought, and many other factors have caused the tight oil supplies and high prices since last summer. For example, soybean oil prices at Rotterdam rose from $477 a ton in July 1983 to more than $900 in May 1984.

Oil prices have declined in recent months as Malaysian palm oil has become more available. Also, probably many buyers are delaying some purchases until the larger 1984/85 supplies become available. Palm oil has dropped $370 a ton since peaking at $950 in May. Edible oil production may expand more than 6 percent in 1984/85, led by advances in soybean, sunflowerseed, and palm. An "up" year is expected in olive oil, and cottonseed oil will be more available. Even with the expanded 1984/85 oil production, low carryin stocks and strong demand will keep supplies relatively tight.

U.S. Export Prospects Mixed

U.S. exports of most oilseeds and products are running well below a year earlier. Reduced U.S. production, larger supplies in competing countries, high prices, and weak meal demand have all contributed. Soybean exports in 1983/84 are expected to fall almost 4 million tons (16 percent) below 1982/83, with the sharpest declines to the EC and Spain. Lower shipments to the EC are also primarily behind the expected 1.6-million-ton drop in 1983/84 soybean meal exports. Despite a sharp runup in prices and strong U.S. demand, soybean oil exports have held up surprisingly well.

Lower prices and some improvement in meal demand, especially in the second half of 1984/85, should lead to a small improvement in soybean exports in 1984/85.

Soybeans and products: World production, consumption, and net exports[1]

Country	1982/83			1983/84			1984/85[2]		
	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports	Prod.	Cons.	Net exports
	Million metric tons								
Soybeans									
Major exporters									
U.S.	59.61	30.16	24.63	42.64	26.67	20.68	55.39	26.94	21.77
Brazil	14.75	13.68	1.24	15.20	12.50	1.25	16.00	13.40	1.45
Argentina	4.00	2.11	1.42	6.00	2.70	2.80	5.80	3.50	1.90
Major importers									
EC-10	.03	10.98	−11.65	.09	9.30	−9.53	.14	9.55	−9.90
Japan	.23	3.85	−4.87	.22	3.90	−4.75	.22	3.98	−4.85
Spain	.01	3.04	−3.04	0	2.94	−2.95	.01	3.02	−3.02
Eastern Europe	.67	1.26	−.66	.65	1.22	−.65	.69	1.22	−.61
China	9.03	3.62	0	9.76	3.91	0	9.80	3.92	0
Mexico	.55	1.45	−1.07	.62	1.65	−1.45	.60	1.75	−1.00
Taiwan	.01	1.08	−1.27	.01	1.10	−1.34	.01	1.20	−1.35
USSR	.49	1.28	−1.99	.50	1.39	−1.10	.50	1.39	−1.10
Residual	3.93	5.38	−2.74	3.97	5.48	−2.96	4.61	5.92	−3.29
World	93.31	77.89		79.66	72.76		93.77	75.79	
Soybean meal									
Major exporters									
U.S.	24.24	17.52	6.45	20.60	15.83	4.85	21.61	16.51	5.04
Brazil	10.60	2.29	8.24	9.65	2.18	7.60	10.35	2.25	7.90
Argentina	1.70	.16	1.55	2.08	.18	1.80	2.70	.19	2.35
Major importers									
EC-10	8.76	15.34	−6.63	7.43	14.05	−6.58	7.59	14.58	−7.03
Eastern Europe	.99	3.87	−2.88	.97	4.09	−3.13	.96	4.28	−3.32
USSR	.97	3.52	−2.55	1.05	2.25	−1.20	1.05	2.55	−1.50
Portugal	.53	.45	+.08	.54	.45	+.09	.51	.39	+.12
Japan	3.00	3.18	−.18	3.02	3.19	−.18	3.09	3.22	−.14
Mexico	1.12	1.17	−.18	1.27	1.23	0	1.35	1.30	−.26
Residual	10.05	13.37	−3.90	10.28	13.49	−3.25	10.80	14.45	−3.16
World	61.96	60.87		56.89	56.94		60.01	59.72	
Soybean oil									
Major exporters									
U.S.	5.46	4.47	.92	4.91	4.38	.77	5.08	4.42	.66
Brazil	2.56	1.65	1.01	2.34	1.58	.81	2.50	1.60	.88
Argentina	.35	.07	.27	.44	.08	.35	.58	.09	.47
EC-10	1.91	1.36	.43	1.65	1.36	.35	1.66	1.27	.39
Spain	.54	.09	.42	.52	.09	.44	.54	.09	.44
Major importers									
India	.08	.58	−.50	.09	.74	−.65	.11	.66	−.55
Pakistan	0	.31	−.31	0	.35	−.35	0	.37	−.37
Eastern Europe	.22	.43	−.22	.21	.32	−.11	.21	.37	−.16
Iran	.01	.29	−.28	.01	.26	−.25	.01	.29	−.28
Morocco	0	.17	−.17	0	.17	−.17	0	.18	−.18
Residual	2.63	4.24	−1.57	2.75	4.00	−1.19	2.85	4.23	−1.30
World	13.76	13.66		12.92	13.33		13.54	13.57	

[1]For soybeans, consumption refers to crush. Trade and consumption on marketing year except for Brazil and Argentina which are on an October-September year. [2]Forecast.

Increased rapeseed, sunflowerseed, and coarse grain production in Europe, plus larger Brazilian soybean production, will limit the U.S. export gain.

Meal demand will continue weak well into 1984/85. This, along with plentiful supplies of many types of protein meals and lower grain prices, may result in only a small increase in U.S. soybean meal exports in 1984/85, despite lower prices. U.S. prices may average $20 to $45 a ton below 1983/84.

Soybean oil exports may decline in 1984/85, despite continued strong world demand for edible oils. Weak demand for meal will limit U.S. crushings, and the domestic oil market will continue to expand. Thus, U.S. oil prices may be too high to allow any increase in exports, especially since there will be larger supplies of soybean and other oils in the world market. *[Gerald Rector (202) 447-8912]*

Meat

Although global meat production could rise 1 percent this year, higher feed costs and weak demand will hold it down from last year's 2-percent gain. Slow economic growth will keep consumer demand for meat sluggish in most foreign countries. Declining feeding costs beginning this fall and some improved economic growth will help producers caught in the current cost/price squeeze. However, the improved profitability may not come soon enough to realize much gain in meat output next year.

Beef and Veal To Gain

Output of beef and veal in 1984 will increase as larger EC, Argentine, and Soviet output should cover declines in Oceania. Next year, continued increases in the USSR and Brazil may offset U.S. declines, with total output remaining about the same. U.S. beef and veal production in 1984 will about match last year, as increased beef production in the first half of the year will largely offset reduced second-half output. However, with lower beginning year inventories, 1985 U.S. beef output may fall 2 to 4 percent.

USSR beef production continues to advance, led by continued favorable feed and forage supplies. Indications point to less favorable forage and fodder production in 1984, compared to 1983's outstanding output. Beef production in 1985 could gain 3 percent, slightly less than this year. Production in the EC may increase 6 percent this year, primarily because of the new dairy policy. Output will likely remain high next year, but slightly below this year. Huge intervention stocks have created apprehension among the major beef exporters. These countries, particularly Australia and Argentina, fear larger subsidized EC exports.

In Oceania, cattle inventories have begun to slowly expand. Beef output will decline 10 percent this year, and remain low next year. Some Australian producers are finding it more profitable to restock with sheep because of favorable wool prices. Brazilian and Argentine inventories are expected to continue growing. Although output in Argentina will increase, most will go for domestic consumption rather than export. Brazil's production in 1984 should stay about the same as last year, but exports are expanding.

Pork Output Levels Off

Output of pork this year is forecast to remain about the same as in 1983. Lower U.S. and Eastern European output should be matched by gains in the USSR, Japan, and Canada. Some pickup in world production may occur next year.

Higher feed costs and lower hog prices caused larger cullings of U.S. breeding animals last fall and early in 1984. Thus, U.S. pork production may be down 5 percent this year. While herd rebuilding is expected to start this fall, it could be after mid-1985 before output moves above 1984. U.S. imports are up this year as live hogs and pork from Canada have risen sharply. Denmark has also increased shipments to take advantage of reduced U.S. supplies and higher prices.

USSR pork production continues to grow because of record inventories. There is continued pressure from unmet consumer demand for expansion in pork production, but much will depend on feed supplies.

In several other countries, cutbacks have occurred because of higher feed prices and low returns. Some firming of hog prices has occurred in the EC. However, the new EC dairy program could cause additional dairy beef late this year and next, thereby dampening demand for pork.

Japanese pork production and imports are likely to be up 2 and 5 percent in 1984, and with inventories expanding in 1984, output could improve again next year. Korea's 1985 production is forecast to remain at 1984's high. Oversupply of pork this year and the resulting low prices will substantially lower inventories during 1984, which will nevertheless remain high.

Poultry Output Slows, Trade Down

Growth in poultry meat production slowed in recent years, and 1984 output may be less than 2 percent above last year. Most of this year's growth will occur in the United States, where demand will benefit from lower supplies of pork and beef and a strong economic recovery. USSR output will be up as part of its push to increase meat supplies.

In many other countries, however, high feed prices, limited feed supplies, and weak demand for meat has led to little growth, or in some cases, declines. This is especially true of countries that produce for the export market—Brazil and France. In 1983, Brazil accounted for more than a quarter of world broiler exports, with about 70 percent going to Saudi Arabia, Iraq, and Egypt. France accounted for a third, primarily to the Middle East and the USSR. However, several Middle East countries are increasing their domestic production and reducing imports. This will likely spell reduced Brazilian, French, and Hungarian production and exports this year.

U.S. exports continue to drop and competition for remaining markets is fierce. Last year, 75 percent of U.S. poultry meat exports were chicken parts. Brazilian

and French trade is mainly whole birds, but they are now attempting to take a share of the U.S. parts market in Japan and East Asia. Thailand has also become a major supplier of poultry to Japan. Its market share was 20 percent in 1983 but may increase to 30 this year, mainly because of the higher U.S. prices and strength of the dollar.

Next year, lower feed costs and some continued, although slow, economic recovery should boost global output. Most of these expected gains, however, will go for domestic consumption rather than increased exports. *[Linda M. Bailey (202) 447-4863]*

Sugar

Supplies Abundant, Prices Continue Low

World sugar output of 94.7 million tons in 1983/84 is down 6.1 million from the average of the previous two crops because of poor weather and reduced area harvested in several major producing areas. Production in the EC declined more than 3 million tons; in Asia, nearly 3 million; in Africa, nearly 1 million; and in Oceania, nearly 0.5 million. It increased about 1.3 million tons each in North America and the Soviet Union. Cane sugar output dropped 4.4 million tons, while beet sugar fell only 2.1 million.

Early indications for 1984/85 world centrifugal sugar production are around 99.8 million tons, up around 5 million from the previous poor crop. EC output should increase 1.6 million tons; Asian, 2.5 million; and African, about 700,000. Crop prospects are up in Australia and South Africa over drought-reduced 1983/84 production. Output is also expanding in India and China.

World consumption in 1983/84 is placed at 95.7 million tons, up 4 percent from the previous year. The early estimate of consumption in 1984/85 is 97.3 million tons, up 1.6 percent. Use may increase 1.6 million tons in 1984/85, less than the projected 5.1 million rise in production. This means 1984/85 ending stocks will increase about 2.5 million tons and will exceed 40 percent of estimated consumption. This is far above the stock-to-consumption ratios of 25 to 30 percent considered adequate.

The world price of raw sugar (f.o.b. Caribbean) moved even lower to under 4 cents a pound in mid-August. The July monthly price of 4.51 cents a pound was down sharply from over 10.5 cents in June-August 1983. The abundant supplies hanging over the global market have tended to keep the price low in recent months. Prices seem likely to stay 3 to 7 cents a pound through mid-1985 when information becomes available about the prospective size of next year's crop. *[Fred Gray (202) 447-7290]*

Coffee

1984 Production Up, Prices Declining

World coffee production in 1984/85 is now estimated at 91.9 million bags (60 kilograms each). This is slightly higher than last year's crop, and nearly 11 percent higher than the frost-reduced crop of 1982/83. Among the 18 coffee growing areas that produce a million bags annually, production was up in 9, down in 8, and unchanged in Uganda.

Production will increase in Central America, Mexico, Cameroon, Ivory Coast, Tanzania, Zaire, India, Indonesia, and Papua New Guinea. Output in these areas, which will account for over a third of 1984/85 world production, will rise about 21 percent. Production decreases of around 9 percent overall are occurring in Brazil, Columbia, Peru, Venezuela, Ethiopia, Kenya, Madagascar, and the Philippines, which together will account for over half of world output in 1984/85. Global exports will likely total 67.6 million bags in 1984/85, up 2.2 percent from 1983/84. World consumption is expected to expand to 89.4 million bags, but will fall about 2.5 million short of production. Consequently, 1984/85 ending stocks in producing countries are expected to increase nearly 7 percent, to 50.4 million bags.

The International Coffee Agreement (ICA)-1976 composite price for "other mild Arabics" and "Robusta" coffee averaged $1.28 a pound in calendar 1983, up 2.5 cents from 1982. For the first 7 months of 1984, the ICA-1976 composite green price averaged $1.43 a pound. The run-up in green coffee prices to $1.48 in May from $1.39 in January, and the subsequent falloff to $1.41 in July and $1.38 in early August, reflected a changing market assessment of 1984/85 world coffee supplies. Since 1969, Brazil suffered a freeze at least once every 3 years that lowered its coffee crop the following year. But by early summer 1984, the 3-year freeze cycle seemed broken, and green coffee prices began to soften. Operations of the International Coffee Organization, the operating arm of the ICA, are expected to keep coffee prices within the prescribed ICA range of $1.20 to $1.40 a pound over the next 12 months. *[Fred Gray (202) 447-7290]*

Cotton

Output To Rise, Prices Weaken

Sharply increased supplies leading to stock increases and falling prices dominate 1984/85 cotton prospects. Mexico, Brazil, Turkey, and Pakistan are expected to show substantial improvements in production over a year earlier. With the United States making a strong recovery from last year's drought- and PIK-reduced crop, world production is likely to grow almost 13 percent, to a record 76.1 million bales.

The production gains are not, however, expected to translate into equally impressive increases in world mill use, which may rise only 2.8 percent to about 70.4 million bales. All of the larger mill use is anticipated in the foreign sector, as economic recovery and improved supplies abroad lead to use of about 64.9 million bales—somewhat above the long-term trend. U.S. mill use may decline 5 percent, to about 5.5 million.

Most of the world's production increase will go into stocks, which are forecast to increase 5.5 million bales by the end of 1984/85. For some countries, notably Pakistan and Mexico, this will mean relief from tight 1983/84 stocks. However, most of the stock increase will occur in China, where extremely high production is expected to persist, outstripping domestic consumption and exports. Thus, China's stocks may exceed 10 million bales and

Cotton: World production, consumption, and net exports[1]

Country	1982/83 Prod.	1982/83 Cons.	1982/83 Net exports	1983/84 Prod.	1983/84 Cons.	1983/84 Net exports	1984/85[2] Prod.	1984/85[2] Cons.	1984/85[2] Net exports
				Million 480-lb. bales					
Major exporters									
United States	12.0	5.5	5.2	7.8	5.8	6.8	12.6	5.5	5.7
USSR	11.9	9.2	2.9	12.5	9.3	2.8	12.7	9.5	3.1
Pakistan	3.8	2.5	1.3	2.2	2.0	0	3.5	2.3	.9
Egypt	2.1	1.2	.9	1.9	1.3	.7	1.8	1.4	.4
Turkey	2.2	1.6	.7	2.4	1.8	.6	2.6	1.8	.6
Central America	.8	.1	.7	.7	.1	.6	.7	.1	.6
Sudan	1.0	.1	.6	.9	.1	.8	1.0	.1	1.0
Brazil	3.0	2.6	1.0	2.5	2.4	0	3.0	2.6	.2
Mexico	.8	.6	.4	1.0	.5	.4	1.4	.6	.7
India	6.3	6.2	.6	6.1	6.4	.3	6.4	6.4	.2
China	16.5	16.4	−1.0	21.3	16.7	.4	21.3	17.5	.9
Major importers									
Western Europe	.7	5.6	−4.9	.7	5.7	−4.7	1.0	5.8	−4.9
Japan	—	3.3	−3.1	—	3.3	−3.2	—	3.3	−3.3
Eastern Europe	.1	3.3	−3.2	.1	3.3	−3.3	.1	3.4	−3.4
South Korea	—	1.6	−1.6	—	1.6	−1.6	—	1.6	−1.6
Taiwan	—	1.1	−1.0	—	1.1	−1.1	—	1.1	−1.1
Hong Kong	—	.7	−.7	—	.8	−.8	—	.8	−.8
Residual	6.2	6.2	+1.2	7.5	6.3	+1.3	8.0	6.6	+.8
World	67.4	67.8		67.6	68.5		76.1	70.4	

— = negligible. [1]Year beginning August 1, consumption is mill use. [2]Forecast.

account for more than one-third of world carryover. The single largest uncertainty facing cotton markets today is the ultimate disposition of those enormous stocks.

World trade is expected to increase only slightly from 1983/84's 19 million bales. Much of this year's consumption increase will take place in major exporting countries, such as Pakistan, thus inhibiting trade. The important change in trade will be a shift in market shares, as China—a major importer only 2 years ago—becomes a leading exporter. Countries that formerly supplied the Chinese market, such as Brazil, Pakistan, and the United States, will not only lose this major market, but will also compete with China in other markets, such as Hong Kong and the rest of Asia. Thus, competition in 1984/85 is likely to be intense, and the U.S. market share will decline from last year's unusual 36 percent. However, unusually large outstanding export sales carried over from 1983/84 are a favorable sign that the United States will maintain a normal market share of about 29 percent. As of August 16, total exports and commitments were 3.4 million bales, 4.9 percent of the 5.7 million forecast for the year.

When increased supplies began to seem likely, U.S. spot prices fell sharply. After peaking at almost 82 cents a pound in May, U.S. spot prices fell to about 62 cents by mid-August, a 24-percent drop in 3 months. *[Donnel O'Flynn (202) 382-9820]*

Tobacco

Production Declines

World tobacco production in 1984 is forecast at 5.92 million tons (farm sales weight). This is down 1 percent from last year, primarily because of a 2.5-percent cutback in planted acreage. The flue-cured crop may be down 2 percent from last year's 2.89 million tons. A small decline to 944,000 tons is expected for oriental leaf. Burley output may rise 12 percent to 723,000 tons.

China's crop is expected to equal last year's 1.4 million tons. China has restricted tobacco output in the last 2 years to reduce surplus stocks. Decreases are estimated for India, South Korea, Brazil, the USSR, Turkey, and Japan.

Because of expected higher flue-cured output, the U.S. tobacco crop may rise 18 percent to 764,000 tons. U.S. auction prices for flue-cured tobacco averaged $1.78 a pound in 1983, down from $1.79 in 1982. The average flue-cured support price in 1984 will remain unchanged at $1.70 a pound.

Consumption Down

Leaf tobacco consumption will exceed production in 1984, as it did in 1983. U.S. domestic tobacco use is expected to decline from last year's 660,000 tons, to around 625,000 because of declining cigarette sales. In major foreign exporting countries, consumption is predicted to decline 8 percent, to 2.3 million tons. The major foreign importing countries are expected to increase consumption slightly, to 1.2 million tons.

Trade Up Slightly

World exports of unmanufactured tobacco in 1984 are expected to be up slightly to 1.4 million tons (declared weight). Brazil, the world's second largest tobacco exporter after the United States, is expected to export 8 percent less because of reduced supplies and weak demand worldwide. However, the Brazilian Government removed the leaf tobacco export tax, which could boost Brazilian leaf tobacco exports in the near future. Lower exports are forecast for India and Italy, while exports from Greece, Turkey, and Zimbabwe are expected to increase.

Tobacco: World production, consumption, and net exports

Country	1982 Prod.	1982 Cons.	1982 Net exports	1983[1] Prod.	1983[1] Cons.	1983[1] Net exports	1984[2] Prod.	1984[2] Cons.	1984[2] Net exports
				1,000 metric tons[3]					
Major exporters									
United States	814	711	18	584	660	31	688	625	40
Brazil	321	162	166	322	161	177	321	160	163
Zimbabwe	81	3	81	87	4	93	101	4	95
Greece	126	30	69	106	32	77	128	32	81
Turkey	169	85	105	180	84	69	174	84	85
India	489	373	98	559	375	84	423	385	80
Italy	123	82	66	127	85	46	124	86	47
Malawi	53	2	46	64	2	60	56	2	55
Bulgaria	129	95	35	111	96	22	111	97	22
China	1,961	1,441	20	1,260	1,590	20	1,260	1,396	20
Major importers									
Germany, Fed. Rep.	7	121	−114	6	117	−112	6	136	−130
United Kingdom	0	144	−123	0	138	−126	0	135	−125
Netherlands	0	59	−64	0	67	−69	0	65	−63
Spain	35	90	−62	37	84	−68	35	81	−60
Belgium	2	40	−36	2	42	−35	2	43	−38
France	38	69	−31	31	69	−36	33	66	−33
USSR	269	359	−123	343	369	−134	330	382	−139
Japan	126	211	−78	123	206	−75	117	209	−73
Egypt	0	43	−43	0	49	−49	0	52	−52
Germany, Dem. Rep.	4	21	−18	5	24	−20	5	24	−19
Residual	1,334	1,377	−12	1,348	1,261	+45	1,343	1,367	+44
World	6,081	5,518		5,295	5,513		5,257	5,431	

[1]Preliminary. [2]Forecast. [3]Dry weight.

U.S. exports in 1984 are forecast 1 percent above last year's 239,000 tons, with a unit value nearly 3 percent higher than the previous year's $2.79 a pound. Because of flat demand, the U.S. share of the export market was around 17 percent in 1984, compared with 25 in the 1960's. Japan's imports from the United States, its major tobacco supplier, could increase 3 percent to 49,000 tons, increasing the U.S. market share from 63 to 66 percent. A possible 10-percent reduction in Japan's tobacco acreage in 1985 could strengthen U.S. tobacco exports even further.

Higher export unit values are expected to push U.S. exports of unmanufactured tobacco and cigarettes in 1984 to a record $2.6 billion. U.S. duty-paid imports, mostly oriental and machine-threshed tobacco, are expected to decline 19 percent to $605 million. *[Charles E. Goode (202) 447-8840]*

REGIONAL DEVELOPMENTS

United States

Crop Production Rebounds in 1984

Farmers planted 35 million more acres to major field crops this year than in 1983 when Government programs limited farm activity. Feed grain acreage jumped 18 million acres to 120 million and accounted for the largest part of the increase. Soybean seedings increased 5 million acres, while cotton and wheat acreage were both up 3 million.

A late spring delayed planting for most crops, but unlike last year, moisture supplies have continued near normal this growing season. Thus, the August forecast indicates that 1984 production of all major field crops, except wheat, will be substantially larger. Because of continued low wheat prices, the PIK area reduction program was extended to 1984, but wheat output is estimated 4 percent above the 1983 record. The index of crop production may rise to 110, up from 87 in 1983, but still below the record in 1982. Corn production is rebounding the sharpest with an 84-percent rise. Increases of 30 percent and 62 percent are likely for soybeans and cotton.

Larger crop production will lead to softening in prices as harvest approaches. However, with some strength in both domestic use and exports, only a moderate increase in stocks of grains and oilseeds is likely. Thus, prices will likely remain above loan rates during 1984/85.

Meat Production Turns Down, But Still Large

Larger feed supplies this fall will encourage some increased feeding activity, but this increase likely will not show up in meat production until at least mid-1985. High feed costs over the past year have depressed returns to hog producers and reduced farrowings. Second-half 1984 pork production will decline 10 percent or more from a year earlier. Meanwhile, fewer cows and young cattle directly off grass will likely be slaughtered this summer and fall. Grazing conditions have improved this year and more cattle likely will be placed in feedlots this fall. On balance, beef production may be off about 4 percent in the second half. Broiler production will probably rise about 5 percent as producers have responded to higher returns this year. Total meat output during July-December will be 2 to 4 percent smaller than a year earlier. However, because meat supplies during the first half were record large and second-half production will be nearly as large, output for the year may be down less than 1 percent. *[Donald Seaborg (202) 447-8376]*

Canada

Crop Conditions Deteriorate

The dry weather that plagued the grain areas in western Canada during the winter and early spring persisted into the summer. The weather has been most severe in the southern grain areas, but even the central areas have suffered from the heat and dryness. The wheat crop, including durum, has been hardest hit. With both a drop in area and sharply reduced yields from last year, wheat production will be the smallest in 5 years. Coarse grain production will also be curtailed, despite an 8-percent increase in area. Oilseed yields have fallen from earlier expectations.

Exports Set Record This Year

Exports of Canada's seven major grains and oilseeds for 1983/84 (August-July) surpassed the previous year's record about 3 percent. This means Canada has already reached the 1985 30-million-ton goal that the Canadian Wheat Board set in 1976. Large supplies and an improved transportation system made reaching the export record possible. In contrast to 1982/83, wheat exports declined slightly, while coarse grains and oilseeds rose. The USSR and China remained the top wheat customers, but exports dropped from a year ago. Wheat exports were up sharply to Egypt, India, Iran, Iraq, and Mexico. For coarse grains, lower barley exports offset higher rye shipments. East Germany and Japan were the leading coarse grain buyers, as exports to the USSR dropped over 65 percent. Both rapeseed and flaxseed exports increased significantly over 1982/83. Japan remained the leading customer, but shipments to Western Europe accounted for most of the increase.

Exports To Drop in 1984/85

Canadian exports will suffer in 1984/85 because of production declines. Wheat supplies will be about 31 million tons, compared with an average 37 million the past 2 years. Coarse grain supplies will be very tight, reflecting low stocks and lower production. Barley exports will not reach the 5 to 6 million tons of the past 3 years, and Canadian imports of coarse grains from the United States are likely to grow. Canada should be able to meet its export commitments under long-term agreements, which covered about 65 percent of grain exports in 1983/84, but additional supplies for export to other countries will be limited. Canada's grain shortfalls should have positive implications for U.S. exports. *[Carol Goodloe (202) 447-8378]*

Western Europe

Growth Tentative

Economic growth returned to Europe in the last half of 1983, some 6 months later than in the United States. Real growth in the EC at an annual rate of 4.8 percent in the fourth quarter of 1983 pushed the year's change in GDP to a positive level for the first time in 4 years. The quarter's result was also the best quarterly performance in 4 years. Nevertheless, the recovery in the EC remains considerably slower than in the United States and shows significant weaknesses. Exports are responsible for most of the recovery, with strong growth in the United States and the high value of the dollar stimulating demand for European exports. The situation is not without negatives: dollar denominated commodities, such as petroleum, remain high-priced in Europe. Investment is stifled by an outflow of financial capital seeking the high interest rates in the United States. In spite of the recovery, unemployment has shown few signs of declining. Consumer spending remains sluggish and the rate of increase in industrial production has already started to slow.

Further difficulties ensued this year from lengthy strikes in both Great Britain and West Germany. Strikes were recently settled in West Germany and among U.K. dockworkers, though a particularly virulent coal miners strike persists in the U.K. These will weigh on economic performance in 1984. Positive growth is forecast for the year, but continuing recovery strongly depends on the world economy and notably on the United States.

Grain Crop Record

A strong recovery of cereal production in the Iberian peninsula after 3 years of drought and excellent yields in the EC will push 1984 cereal production to new highs in Western Europe. Total production is forecast at 172 million tons—8 million higher than the 1982 record crop and 16 million above last year's crop.

The rebound in grain production will add to already large stocks, especially of wheat in the EC, and accelerate a trend in declining cereal imports and increasing exports. Imports in the non-EC countries will also fall off after several years of above normal levels. New milling techniques, which allow enriching flour's protein content, have reduced European imports of high-protein wheat (mostly Hard Red Winter) from the United States. This type of wheat cannot be grown commercially in Europe and had previously guaranteed an import market of some 5 million tons of high-protein wheat. These imports fell off during the last recession and now appear to be declining permanently.

The region will become increasingly competitive in the international soft wheat and durum markets in which they are in net surplus. A trend towards increasing wheat acreage in the EC, up 400,000 acres in 1984, while coarse grain acreage remained stable, will further accelerate market difficulties. Wheat appears to be the most profitable cereal at present EC support levels, and unless supports are modified, rapidly growing surpluses seem indicated. Nevertheless, an improved 1984 coarse grain crop and increased feeding of wheat replacing imported feed barley could lead the EC to become a net exporter of coarse grains for the first time. Corn imports, now used almost exclusively for starch manufacture, have been dwindling. Corn has been replaced as an imported feed in the EC, but corn imports of about 4 million tons for the starch industry may be maintained because the potential for growing corn in the EC is limited. Varieties imported for starch are of somewhat better quality than the EC grown ones.

Soybean Meal Demand Moderate

While demand for soybean meal is forecast to increase in 1984/85, as a result of lower prices, several factors com-

bine to maintain demand considerably below the level reached in 1981/82. A continuing high exchange rate for the U.S. dollar relative to European currencies promises to moderate any increase in soybean and meal demand resulting from lower U.S. prices in 1984/85. The EC dairy reform program will dampen demand for protein feeds. When exception is made of the lower prices, a decrease in demand for U.S. meal of between 200,000 to 300,000 tons is estimated out of a total reduction of 400,000 to 500,000. A quota system for milk production will reduce production some 5 percent to slightly above 1981, and result in a decline in demand for compound feed. The loss will come mostly in soybean meal for the United States as corn gluten feed, its other major dairy feed export to the EC, remains relatively well priced compared with other imported feed ingredients. The adjustment in dairy production is expected to be completed by the end of the year.

EC Budget Problems Persist

In spite of quotas on milk production, which will eventually reduce costs in the Common Agricultural Policy's (CAP) most costly sector, current estimates indicate a 1984 shortfall of about $1.5 billion between revenues and costs of agricultural programs. While the heads of member countries have agreed to raise their contribution of national value added taxes (VAT's) to the Community, the transfer will not become effective until 1986. The EC has currently no power to borrow against future revenues, so to meet expenditures on agriculture, a supplementary budget must be agreed to and funds transferred from the member States. While several States expressed some reluctance to provide additional funds, final agreement was prevented by the opposition of the U.K. The U.K. proposed that these member State payments be delayed until 1985 when U.K. budget payments will be reduced. The resulting stalemate led the European Parliament to block the previously agreed upon budget rebate to the U.K., further adding to the difficulty of the 1984 budget solution.

Savings in current 1984 agricultural expenditures have been realized in some of the principal commodity programs, namely grains and oilseeds. Higher world prices for these commodities during the first 6 months of 1984 and a strong dollar have reduced export subsidies and support payments for oilseeds in the EC. Costs have continued to rise in the dairy program, due to the prior buildup of stocks. Dairy program costs should finally begin to fall by the end of the year when milk production is actually reduced and stocks begin to decline. In addition, sharply higher costs for the new Mediterranean program for fruits and vegetables are pushing total 1984 expenditures beyond their allocations. This poses problems for the future of EC agricultural programs because grain and oilseeds payments will rise again as world prices fall, while fruit and vegetable costs promise to increase further. Increases in the cost of price supports for the Mediterranean products as well as oilseeds will be particularly sharp if Spain and Portugal join the EC as now planned. This would create problems for a number of countries in the Mediterranean area, such as Israel and Morocco, who are major suppliers of fruits and vegetables to the Community. (See special article "Recent CAP Changes.") *[Stephen Sposato (202) 447-8289]*

Australia

Dry Autumn Reduces Wheat Crop Potential

Following an unusually wet summer, the eastern States endured a dry autumn. Many of the major wheat areas received little or no rain from mid-April until late July. After the rains came, farmers returned to the fields but were unable to plant as large an area as intended. Yields are limited for wheat planted so late in the season. Generally good weather has prevailed in Western Australia, and a record crop is in prospect in that State. Total wheat area will be near the 1979/80-1983/84 average, and output is forecast at 16.5 million tons, 11 percent above the 5-year average.

A large area intended for wheat was planted to barley, which can be successfully planted later in the season. Barley area is expected to increase slightly to a record high, but yields will likely return to average. The dry autumn limited plantings of winter oilseeds; nevertheless, area is estimated 6 percent above last year. Farmers are expanding oilseed production because of favorable returns. If rains continue through early spring, plantings of summer crops—sorghum, sunflower, and soybeans—may also expand above last year and earlier forecasts.

Livestock Industries Face Mixed Prospects

Despite the great improvement in pasture conditions, preliminary estimates show that Australian cattle numbers declined marginally between March 1983 and 1984. Producers are expected to begin to rebuild herds this year, and the number of cattle slaughtered could be 10 to 14 percent less than in 1983 and the smallest in a decade. Average slaughter weights are up because of plentiful feed supplies last summer in many areas. With reduced beef production and large supplies of other meats, domestic beef consumption may decline. Beef exports may drop 15 to 20 percent. January-June 1984 shipments fell a fourth from the same period in 1983, with most of the reduction in shipments to the United States and South Korea. Exports were down to most major markets except Japan and Malaysia.

Sheep numbers jumped 6 percent—7 million head—in 1983. Excellent pastures boosted lambings and substantially reduced death losses for all sheep. Extremely low slaughter prices caused farmers to hold their sheep; adult sheep slaughter was one-third less than in 1982. If pasture growth is satisfactory, herd expansion will likely continue this year, but at a more normal pace. Slaughter of sheep and lambs is expected to increase, and meat production may be up significantly from 1983. Exports will likely remain depressed because of weak demand.

Australian meat consumption

Year	Beef & veal	Lamb	Mutton	Pork	Poultry
	Kilograms/person				
1980	45.0	15.1	4.5	14.8	21.1
1981	47.8	15.7	3.2	14.8	18.9
1982	49.7	16.6	4.0	14.2	18.9
1983	40.8	15.5	3.6	14.8	19.6
1984[1]	41.1	15.5	5.8	14.4	19.7

[1]Forecast.

The cattle herd is expected to recover slowly through the next several years if average weather prevails and export prices remain favorable. However, if the global economy declines and beef prices are depressed, Australian producers could further reduce cattle numbers. Optimistic expectations for wool demand and good performance by sheep during the 1982/83 drought favor continued expansion of sheep holdings. *[Sally Byrne (202) 447-8376]*

Japan

Japan To Import Rice from South Korea

Japan began importing 135,000 tons of rice from South Korea in July to cover an anticipated shortage of industrial-use rice (used in processing rice-crackers, soy sauce, bean paste, etc.). Bromine contamination detected in some 1978 rice held in Government stockpiles worsened the already low stock situation caused by 4 consecutive years of weather-reduced crops, prompting the Government's decision to import a substantial quantity of rice for the first time in 17 years.

South Korea agreed to pay back in rice part of 570,000 tons of rice borrowed from Japan in 1969 and 1970 to help ease food shortages. South Korea had been repaying in cash since 1980. Japan is committed to a policy of rice self-sufficiency and is against importing rice in principle. As a result of the shortage, the Government will likely reevaluate its rice reduction plan (diversion of 600,000 hectares each year over the next 3 years) after this year's crop is known. In the meantime, the Government has reinstituted premiums for early rice delivery. From mid-August through September, early rice deliveries are normally about 1 million tons.

Japan-Australia Beef Talks

Because of bilateral talks with Australia in July, Japan will increase its beef imports from all sources 9,000 tons annually over the next 4 years. This figure includes the 6,900-ton increase in high-quality beef imports previously agreed to between Japan and the United States. Japan's imports of chilled beef are to be maintained at the current level of about 24,000 tons a year, and imports of aged beef (chilled beef frozen upon importation) will be increased gradually to about 14,000 tons. A separate quota for manufacturing beef, which Australia had requested, will not be established. Japan's total beef import quota (general and special quotas) for the first half of fiscal 1984 (April-September) recently was set at 76,000 tons, 4,000 over the quota for a year earlier.

Livestock Sector Shows Growth

Japan's livestock sector during October 1983-March 1984 showed healthy gains in output for beef and veal (up 7 percent), broilers (6.2), and milk (2.8), compared with a year earlier. Pork and egg production were stagnant through the period. Pork production is expected to show modest gains during the rest of the year. Imports of beef and veal were up slightly, and pork imports were up sharply. Chicken imports showed a modest decline. Formula feed production during October-March rose 7 percent, with large gains in feed for dairy, beef, and pork output. *[Lois A. Caplan (202) 447-8860]*

USSR

Soviet purchases of U.S. grain during the 1984 summer months have been unusually heavy, exceeding 8.5 million tons between June 29 and August 6. The volume of Soviet purchases this summer has exceeded the summer volume of 1979 and is now second to the extremely large purchases (17.6 million tons) made between July 5 and August 9, 1972. This unusual buying activity may be explained by (1) prospects for a poorer 1984 grain crop in the USSR, (2) record livestock inventories, (3) difficulties in obtaining the quantities needed from other suppliers, (4) low domestic reserves, (5) Soviet decisions reflecting wheat/corn price relationships, and/or (6) Soviet policy objectives reaching beyond normal supply and demand considerations.

Grain Prospects Worsen

Hot, dry weather in much of the lower and middle Volga River areas and in the western New Lands during July, and accelerated USSR buying activity, prompted USDA in August to lower its estimate of Soviet grain production 10 million tons to 180 million. Soviet wheat production is currently estimated at 80 million tons, coarse grains at 89 million, and miscellaneous grains at about 11 million tons.

While grain production prospects deteriorated during the summer, production of forages moved ahead of the 1980-82 average and approached 1983's record. Although the quality of forages may be slightly poorer than last year, the Soviets now seem likely to have larger supplies than early season reports suggested.

Good Performance in Livestock Sector

August 1 livestock inventories in the socialized sector maintained records or near records, except for sheep and goats. Cattle stood at 97.9 million head, hogs at 61.8 million, and poultry at 786.7 million. Meat and egg production showed healthy gains in the first 7 months of 1984. Meat production (liveweight) increased 8 percent and egg production 3 percent over a year ago. Total meat output in 1984 (carcass weight) is expected to reach a record 16.7 million tons, up 5 percent from 1983. Egg production will probably rise 3 to 4 percent, to 77 billion eggs. Rates of increase in the output of milk products after falling in early summer have recovered to 3 percent, which matches the growth rate in mid-1983.

USSR Buying Exceeds Minimums

With 2 months still to go in the first year (October 1983-September 1984) of the new U.S.-USSR grain supply agreement, Soviet purchases exceeded the specified minimum purchases. As of August 16, purchases of U.S. grain had reached 13.9 million tons, 7.3 million of wheat, and 6.6 million of corn. The Soviets have also purchased 1.25 million tons of wheat and 6.6 million of corn for delivery in the second agreement year. Soviet buying has been particularly heavy compared with last year. Soviet purchases in 1983 may have been kept low because the USSR sought to maximize its negotiating leverage in the talks leading to the new agreement. On the other hand, the United States indicated it had adequate stocks to meet Soviet demands in 1984, and it offered the USSR up to 22 million tons of wheat and corn for the first agreement year.

USSR grain imports from all sources are forecast to reach a near-record 43 million tons, 24 million of wheat, and 18 million of coarse grains. U.S. corn should be a big beneficiary of these increased import requirements.

USSR Grain in a Longer Term Prospect

Six consecutive plan shortfalls, now averaging about 55 million tons of grain a year, suggest defects in either the Soviet planning mechanism or on the farms themselves. Whatever the reasons, they seem to go deeper than adverse weather. Despite a USSR national policy of reducing grain imports, reforms aimed at improving labor productivity, better use of inputs on smaller grain area, and a long-needed increase in summer fallow, Soviet grain production has shown little or no response. While the reasons for the poor performance can be many and complex, Soviet media place at least some of the blame on negligent cropping practices that lead to erosion and reduce fertilizer response. Reportedly, the Soviet leadership intends to attack these problems beginning with the 1985 harvest. *[Emily Moore (202) 447-8380]*

Eastern Europe

This year's grain production should be over 100 million tons for the third year in a row. The small grain harvest is especially promising. Oilseed production (rapeseed, soybeans, and sunflowerseed) will be well above 1983's output because of the expected large increase in Poland's rapeseed production. Hay, sugarbeet, and potato outturn is also expected to be above average. Despite this optimistic crop forecast, there will be little overall growth in livestock numbers or product output. Meat supplies will remain well below demand in Poland and Romania, and U.S. farm exports to the region will remain depressed into 1985.

Good Crop Expected

Following widespread late spring rains, summer weather has continued generally favorable, and the region should produce a grain crop of 100 to 103 million tons, below the 1982 record of 105.8 million but above the 97.6-million average of 1979-83. Small grain production is expected to be especially good in every country except Romania. However, corn planting was delayed because of wet fields in the southern countries (Bulgaria, Hungary, Romania, and Yugoslavia) and harvesting could be delayed 2 to 3 weeks, increasing the chances of early frost damage.

No Changes in Livestock Sector Anticipated

The livestock sector's production remains depressed in Eastern Europe. Inadequate foreign exchange has prevented the region from fully importing needed feed grain and protein meals, and has reinforced official support for strict food self-sufficiency policies. This pattern will continue, with some exceptions, into 1985. Only sheep numbers are expected to increase significantly throughout the region. Some recovery is occurring in Polish animal numbers, with cattle and hog numbers likely higher at the end of this year following substantial declines, especially for hogs.

Meat production will be little changed from last year's estimated 11.4 million tons. Production will continue well below demand in Romania and Poland. The market supply in Poland should be very tight late in 1984, despite planned meat imports of 125,000 tons, because retail meat supplies are forecast to be 6 to 8 percent less in the second half of this year than in 1983. The situation was the opposite earlier this year, however, in Yugoslavia. High feed costs earlier this year led to excess slaughtering, flooding the market with meat. Much of this meat has gone unsold because of slack foreign demand and reduced consumer disposable income at home, forcing the Yugoslav Government to buy the excess. Red meat and poultry slaughtering in Yugoslavia was up a reported 35 percent over a year earlier in January through May 1984. This excess slaughtering could result in retail meat shortages next year.

Farm Imports Remain Low

Despite signs of improved access to hard currency credit in several East European countries, farm imports are not expected to increase soon. U.S. grain exports to the region, for example, are forecast at just 1.5 to 1.6 million tons in 1984/85 (Oct.-Sept.), up 22 to 30 percent from 1983/84, but well below several years ago. Total grain imports are estimated at 8.6 and 8.5 million tons, respectively, in 1983/84 and 1984/85. Soybean imports should fall 6 percent to 610,000 tons, largely because of the larger domestic oilseed crops anticipated. But soybean meal imports are forecast to rise 6 percent to 3.3 million tons in 1984/85 over 1983/84. U.S. shipments of soybean meal are benefiting from the higher imports this year, especially by Poland and Romania. *[Robert Cummings (202) 475-3827]*

China

China's economy continues to grow at a rapid pace, and income of urban and rural consumers will rise again in 1984. Consumers will demand more and higher quality textile goods, more processed foods, and more high-quality grains such as wheat and rice, but less coarse grains and potatoes. Nonetheless, the use of coarse grains for feed likely will rise because of increased demand for pork, mutton, dairy products, eggs, and poultry meat. A 1-percent annual population growth means an additional 10 million consumers in 1984. Most of the increased demand for agricultural products will be met from domestic production rather than from imports.

Production To Rise in 1984

China likely will have excellent harvests again this year. The structural reform of communes to townships and the household contract system have given farmers greater freedom to make farm management decisions, especially regarding how crops and animals will be produced. The household contract incentive system (or baogan system) is being used extensively in grain production for the second year in a row. This system provides powerful incentives to farmers to raise yields because it links performance with payments. The baogan system was an important element in the dramatic rise in cotton yields from 489 kilograms per hectare in 1979 to 773 in 1983, a 58-percent increase. Baogan also had an influence in dramatically pushing up grain yields in 1983. The system has encouraged farmers to invest their own funds in production and to purchase more inputs. In the first 6

months of 1984, electrical generation increased 7.3 percent and output of chemical fertilizer and small tractors increased markedly. Baogan has stimulated farmers to combine factors of production more efficiently and apply available technology more effectively. Providing there is good fall weather, the combined forces of structural change, new incentives, and increased supplies of inputs will boost output. The forecast is for excellent oilseed crops, and perhaps record grain and cotton crops, and improvement in the livestock sector.

Rising Production Reduces Farm Imports

Excellent cotton, oilseed, and grain crops in the past few years have overwhelmed China's storage, distribution, and processing facilities. In this period, China has shifted from importing substantial oilseeds in the early 1980's to practically no imports in 1984. It has switched from a major importer of raw cotton to an exporter in 1984. Its grain imports have fallen from a high of over 15 million tons in calendar 1982 to perhaps 10 million in 1984. China has shown some interest in exporting coarse grains.

U.S. Agricultural Exports Recovering

Excellent harvests continue to depress China's demand for U.S. agricultural products. U.S. agricultural exports to China declined from $1.8 billion in fiscal 1982 to $546 million in 1983. Crop prospects for cotton and oilseed crops in 1984 appear to be excellent and no imports of U.S. oilseeds are envisioned for fiscal 1984 or 1985. Only minor quantities of U.S. cotton will be shipped. On the strength of renewed wheat shipments, exports are expected to reach $750 million in 1984 and nearly $800 million in 1985. A record wheat crop of at least 84 million tons has just been harvested, and prospects look good for rice and coarse grains, providing fall weather is reasonably good. No U.S. coarse grains are expected to be shipped to China in FY 84, but small quantities could be shipped in 1985. U.S. wheat shipments from January through June 1984 totaled only about 2 million tons, and purchases for delivery in calendar 1984 total a little more than 4 million. *[Frederick W. Crook (202) 447-8676]*

Asia

South Asian Crops Forecast Near Record

With the 1984 monsoon on schedule and average or better rainfall over most producing areas, India's 1984/85 food grain and oilseed harvests are forecast near their 1983/84 records. Food grain (rice, wheat, coarse grain, and pulses) production is forecast at 147.8 million tons, compared with the record 149.4 million in 1983/84 that broke the previous record by 12 percent. The 1984/85 rice harvest is estimated at 57.3 million tons, but with continued favorable producer price incentives and good weather, it could match or exceed the record 59 million for the 1983/84 crop. Total oilseed production is forecast at 15.3 million tons, marginally below the 1983/84 record, but strong prices for oilseeds relative to competing crops and good weather could also lead to another record crop in 1984/85.

In July 1984, Government stocks of wheat and rice rose to an alltime high of about 21.6 million tons, including a record 17 million of wheat. Wheat stocks have grown because of 2.5 million tons of imports during 1983/84 (July/June), record procurement of more than 9 million tons from the 1984 crop, and slack demand for subsidized wheat from Government stocks because of large supplies and weak prices on the open market. Unrest in Punjab, the key wheat and rice surplus State, did not significantly affect wheat procurement because of the record crop, a highly competitive Government procurement price in a weak market, and large gains in procurement in other surplus States. Food grain stocks now exceed covered storage capacity and 4 to 5 million tons of wheat will remain in open storage for several months. Additional wheat imports, other than those received under P.L. 480, Title II, are unlikely during 1984/85, and it is possible that India will export small amounts to neighboring countries.

Despite record production and procurement during 1983/84, Government rice supplies remain relatively tight. Rice stocks rose to about 4.2 million tons as of July 1984, aided by about 870,000 of rice imports and a curtailment of exports from Government stocks during 1983/84. Rice stocks still remain well below target. Weakening open-market prices following the record 1983/84 harvest have slowed demand for subsidized rice, and another good crop in 1984/85 should allow for additional stock rebuilding. However, additional imports are likely in 1984/85, particularly if low-quality Thai and Burmese rice remain favorably priced.

India's calendar 1984 edible oil imports are now forecast at 1.38 million tons, up from 1.31 million in 1983. Strong domestic demand and a ban on tallow imports that has diverted some domestic edible oils into nonfood uses have spurred imports. Relatively high palm oil prices have boosted the share of soybean, rapeseed, and sunflower oils in 1984 purchases. Imports are now expected to include about 600,000 tons of soybean oil (compared with 602,000 in 1983), 450,000 of palm oil (620,000), 250,000 of rapeseed oil (74,000), and 70,000 of sunflower oil (0). With 1984/85 oilseed production forecast at near the 1983/84 record, 1985 edible oil imports are projected at 1.3 to 1.4 million tons. With a recovery in world palm oil supplies, palm oil purchases are likely to pick up in 1985 and imports are projected to include about 550,000 tons of soybean oil, 600,000 of palm oil, and 200,000 of rapeseed oil.

Bangladesh's 1984/85 (July/June) food grain production is currently projected to fall marginally below the record 15.7 million tons of 1983/84 because of early season flood damage to the main rice crop. However, above trend winter harvests could lead to higher production. Food grain imports are expected to total about 2.1 million tons in 1984/85, with unusually large purchases of Thai rice accounting for about 30 percent of the total. Between 1 and 1.4 million tons of the total will likely be supplied under concessional terms. Food grain stocks are projected to be about 750,000 tons by the end of 1984/85, but they could be built up closer to the target of 1.2 to 1.5 million, if additional concessional imports are available.

Pakistan's major summer crops—cotton and rice—were sowed under ideal weather along with sufficient supplies of fertilizer and water. Official 1984/85 production targets are 3.7 million bales of cotton and 3.8 million tons of rice. If these Government targets are achieved, Pakistan will likely export about 850,000 bales of cotton during 1984/85 (compared with 250,000 from last year's

drought-reduced crop) and about 1.5 million tons of rice (1.3 million last year). The war in Afghanistan continues to displace thousands of people, many of whom seek refuge in Pakistan. In 1984/85, about 400,000 to 500,000 tons of wheat will be imported through the World Food Program (WFP) to feed the estimated 3 million Afghan refugees now living in Pakistan. Dry weather damaged Pakistan's 1984 wheat crop more severely than previously thought, and it is now estimated at 11 million tons, down about 11 percent from 1983. The wheat shortfall may lead to some wheat imports, over and above WFP receipts, during 1984/85.

ASEAN Farm Output Up

The 1984 Indonesian rice crop is forecast at 24.5 million tons, up 4.4 percent from last year. The outturn from the recently completed wet-season harvest was excellent because of increased plantings of high yielding varieties, greater fertilizer use, and good weather. The extended rainy season, which provided maximum water reserves for irrigation, will boost area and output of the second (dry-season) rice crop. Indonesian wheat imports are currently forecast at 1.7 million tons, unchanged from 1983 but 14 percent above 1982. If the forecast materializes and imports from Australia are limited to 500,000 tons (as planned by Indonesia and recently announced by the Australian Wheat Board), the U.S. market share this year could exceed 65 percent or 1.1 million tons, compared with 55 percent last year.

Malaysia's 1984 palm oil production, 57 percent of world output in 1983, may be a record 3.6 million tons, 20 percent more than 1983 and 3 percent above the 1982 record. During September 1982-March 1983, palm oil production was below a year earlier because of drought, biological stress related to 1982's huge output, and reduced fertilizer applications in 1982 when palm oil prices were depressed. Weather in the main palm oil growing areas continues to be good and output is now clearly back on trend. Stocks are rebuilding and exports may reach a record 3 million tons in 1984, up from 2.9 million in 1983.

Despite significant gains by opposition parties in the Philippines' May elections, President Marcos continued to retain control of the National Assembly. The reorganized Ministry of Agriculture and Food (MAF) will coordinate agricultural policies and programs, which are considered essential for the country's economic recovery. The June devaluation of the peso (from P14=$1 to P18=$1) is expected to aid economic recovery by enhancing the competitiveness of Philippine agricultural exports—a major source of foreign exchange earnings. The devaluation will also up the cost of imported inputs, such as fertilizer and pesticides. To offset cost increases, the Government raised support prices again in June for rice and corn—the country's major staples—to $150 a ton (previously $130) and $130 a ton ($110), respectively. To ease tight supplies until the main rice crop is harvested (beginning at the end of September), the Government will import about 150,000 tons of rice, the first rice imports since 1976.

During 1984/85, Thailand is forecast to export a record 3.9 million tons of a record 12.4-million-ton 1983/84 rice crop. The 1984/85 harvest is forecast to decline nearly 2 percent to 12.2 million tons, with slightly less area and more normal yields. Corn plantings are expected to expand 5 percent to 2 million hectares in 1984/85 because of favorable prices, and with good weather, a record 4.35-million-ton harvest is possible. Corn exports could exceed the 2.8 million tons that are likely to be shipped in 1983/84, even with anticipated stock rebuilding and expanded livestock feeding.

East Asia Now Largest U.S. Regional Market

U.S. agricultural exports to East Asia are forecast to reach $10.9 billion by the end of FY 84. For the first time, South Korea, Taiwan, Hong Kong, and Japan will be a larger U.S. agricultural market than Western Europe, which is forecast to take only $9.7 billion in U.S. agricultural products this fiscal year. The switch has occurred because of rapid economic growth in East Asia and the region's limited potential to expand agricultural output. It is also a consequence of the CAP, which has stimulated expansion in European agricultural production and exports, but at the same time, has reduced import demand for agricultural products including those from the United States.

For the last few years, Taiwan has been trying to reduce its rice production, which has overburdened the country's grain storage capacity. In 1984, rice farmers responded to Government incentives by diverting more than 32,500 hectares of rice area to minor crops. Thus, the harvest of the first rice crop, completed in July, is expected to be 8 to 9 percent below last year's first crop of 1.22 million tons. Taiwan's trade surplus with the United States, about $6.7 billion in 1983, is expected to increase to $8.5 billion in 1984. In early 1984, the Government appointed a committee to find ways to reduce the surplus. The committee recently recommended that three "Buy American" trade missions be sent to the United States to buy agricultural and other products. *[William Coyle (202) 447-8229]*

Sub-Saharan Africa

Record Grain Imports Forecast for Kenya

After 3 years of relatively good weather, the worst drought in 50 years hit Kenya this year. Almost all crop output will be lower, particularly grains—corn, wheat, and barley. Corn production, estimated at 1.0 to 1.5 million tons, will be half of normal. Kenya will have to import an estimated record 1.4 million tons of grain in 1984/85, mostly corn, three times that of the highest previous year following the 1980/81 drought.

Kenya's corn imports related to population growth

Marketing[1] years	Population	Corn production	Corn imports	Imports per capita
	1,000	*1,000 metric tons*		*Kilograms*
1961/62	8,876	1,270	113	12.7
1965/66	10,098	1,270	216	21.4
1979/80	15,781	1,450	165	10.5
1980/81	16,434	1,750	438	26.7
1981/82	17,121	2,200	184	10.8
1984/85	[2]19,700	1,000–1,500	1,000–500	50.8–25.4

[1]July-June. [2]World Bank's *World Development Report, 1984.*

Source: U.S. Agricultural Attache, Nairobi.

Kenya's foreign exchange, currently estimated at a relatively high $400 million, would be severely depleted if the country had to import all the grains commercially. Normal grain imports of wheat and rice have cost about $30 million annually. While the country has already tendered for commercial imports, it is likely that a portion of the 1.4 million tons will be received as food aid or on other concessional terms. The first commercial tender for 120,000 tons of yellow corn from Thailand cost $166 a ton or approximately $20 million.

Drought Reduces Output

From the beginning of the year through the end of May, cumulative rainfall in Kenya's central and western areas was only 41 percent of normal, and from April 1 through July 21, 54 percent. The main rainy season normally peaks in April. The corn crop could be the lowest since the early 1960's, when Kenya's population was half its current level. Because of poor grazing conditions, cattle are being slaughtered or lost at a high rate, particularly in subsistence areas. Milk production is sharply lower. The output of coffee—Kenya's leading export—will be reduced, but export earnings can be maintained by drawing down high stocks. The tea crop—the second most important export—has already been reduced, resulting in lower exports.

Kenya's dependence on grain imports, which has fluctuated over the years, has been increasing recently. Despite large corn stocks held by the National Cereal and Produce Board (NCPB)—exceeding 400,000 tons as of July—record corn imports of 1 million tons will be required during 1984/85, as a sharp increase in demand is rapidly depleting NCPB stocks. During 1983/84, some 107,000 tons were exported because the NCPB desperately needed funds to cover the costs of large stocks and increased producer prices. Also, to meet rising demand, 1984/85 wheat imports could be 50,000 tons larger than 1983/84.

Food Imports Jeopardize Economic Growth

Kenya's GDP grew 3.9 percent in real terms, and agriculture grew 3 to 4 percent in 1983. Prices of coffee and tea have been the highest since 1977 and 1980, respectively, and output of both crops set a record in 1983. Export earnings in 1983 increased for the first time since 1980, and with imports constrained, Kenya's trade deficit dropped to the lowest since 1979. The inflation rate, which dropped to 11.5 percent in 1983, was one of the lowest in eastern and southern Africa. The country was becoming less dependent on external financing, although debt-service costs remain high at nearly 30 percent of exports. This encouraging progress is now threatened by high food import costs.

After repeated devaluations, the Kenyan shilling is now worth about half what it was in 1980, (7.4=$1 versus 14). This, combined with a higher world corn price, will make commercial imports very costly. At current world prices, imported corn will cost about $100 more a ton delivered inland than the domestic price paid to farmers. Kenya's foreign exchange had been targeted for needed imports of capital goods. To moderate escalating food prices, the Government will likely subsidize some portion of the additional cost to consumers. *[Lawrence Witucki (202) 447-9161]*

U.S. Exports to Sub-Saharan Africa Record

In the first 6 months of calendar 1984, U.S. agricultural exports to Sub-Saharan Africa reached $719 million, double a year earlier. Although the pace may slow in the second half of the year, the 1984 total should surpass the previous peak of $1.25 billion set in calendar 1981. Higher emergency food aid shipments (under P.L. 480, Title II) account for some of this recent increase. Drought over much of Africa and resulting food shortages started to increase the region's import requirements in the latter half of 1983. On top of regularly programmed Title I food aid and previously allocated emergency aid, the United States made a supplemental allocation of $150 million for emergency supplies for the hardest hit countries during 1984. It also authorized the resale of $90 million of CCC stocks by private exporters to drought-affected African countries, including Nigeria, which is not a food aid recipient.

U.S. Sales to South Africa Rise Sharply

Although significant, concessional exports are still dwarfed by commercial sales. The main reason for the large increase in U.S. exports is a dramatic upsurge in sales to South Africa. Exports through June reached $324 million, including nearly 1.8 million tons of corn worth $264 million and over 64,000 tons of rice at $27 million. South Africa—usually second to Nigeria—has emerged as the leading regional market for the United States, taking 45 percent of total sales, and is currently the main buyer of both corn and rice.

The United States has captured almost 90 percent of the South African corn market, and sales are expected to remain brisk through the end of 1984. Although South Africa has imported some feed wheat from Australia as a substitute for corn, higher-than-anticipated costs associated with its use may preclude further purchases. Exports by Argentina have been limited, apparently by its inability to move grain quickly. Thailand, an important corn exporter to other African countries, has not broken into this market, possibly because it cannot supply the high-quality corn demanded.

Exports to Nigeria also increased in the first half of 1984, to $174 million, up 27 percent. Wheat sales dominated, with over 805,000 tons valued at $131 million. Commitments under the CCC program will further bolster wheat sales and will also insure some corn exports

U.S.-Sub-Saharan African agricultural trade, 1983

	Exports		Imports	
Destination	Value	Commerical share	Source	Value
	$1,000	*Percent*		*$1,000*
Nigeria	334,433	100	Ivory Coast	284,950
South Africa	248,117	100	Uganda	103,811
Sudan	59,260	0	Ethiopia	86,549
Liberia	34,445	56	South Africa	86,043
Kenya	24,886	35	Madagascar	66,574
Other	247,520	42	Other	393,798
Total	948,661	75	Total	1,021,725

Source: Bureau of Census.

during the remainder of the year. Year-round U.S. exports to Nigeria are expected to match or slightly exceed last year's $334 million. However, this amount is still well below 1981 and 1982, reflecting both inroads by competitors and Nigeria's restrictions on imports in the wake of lower oil revenues. The U.S. Nigerian rice market has continued to drop, losing ground to cheaper suppliers, notably Thailand. The United States sold only 3 percent of the 725,000 tons of rice sold or committed so far in 1984.

Overall, grains are by far the major U.S. farm export to Sub-Saharan Africa, representing some 80 percent of the total. The next two largest categories, oilseeds and products and dairy products, account for only 4 percent each. This generally coincides with previous years. Unusual for 1984 has been the prominence of corn supplanting wheat, but this could be temporary. Assuming South African production recovers in 1985, U.S. corn sales will fall off, despite the likelihood of higher exports to Kenya.

U.S. agricultural imports from Sub-Saharan Africa also increased in first-half 1984, to $665 million, up 14 percent. Higher prices for coffee and cocoa, the two main imports, accounted for much of the increase. However, the level of agricultural imports from the region has little impact on U.S. farm exports. In 1983, for example, the three leading suppliers—Ivory Coast, Uganda, and Ethiopia—were small U.S. markets, taking only $12.3 million in products. *[Peter A. Riley (202) 475-3451]*

Latin America

Latin America's grain production during the 1984/85 season should be up 3 percent, with several countries having record harvests. Soybeans are continuing their upward trend, and palm oil is expanding rapidly. Among tropical products, the region's coffee output will be down because of Brazil's shortfall, but cocoa beans will rebound from last year's decline. Sugar production is expected to be up despite a continued slump in prices. Among livestock products, beef and pork are expected to increase slightly, while poultry may decline.

Mexico's Outlook Good

Agricultural production is expected to stay strong in Mexico, with wheat, sorghum, cotton, and sugarcane production increasing the most. Sufficient and timely rainfall has raised hopes for above normal crop yields. Plentiful rainfall has refilled reservoirs, providing adequate water supplies for irrigation. However, the corn crop is currently suffering from too much rain. Pastures have improved after two dry seasons, increasing their carrying capacity and permitting a rebuilding of the cattle herd. However, livestock and poultry production in general is still suffering from depressed demand due to high prices and reduced real consumer incomes.

Brazil's Soybean Crop To Be Large

A record 15.2-million-ton soybean crop was harvested in Brazil this spring. Drought may keep the commercial orange crop (used mostly for juice for export) at last year's level, despite increased use of fertilizers and pesticides. Coffee is expected to decline about 10 percent. The domestic gasohol program will take an increasing amount of Brazil's sugarcane, but low world prices and the collapse of the ISA may keep the sugarcane harvest at last year's level.

Corn and rice output were higher than last year. Moreover, the northeastern production area is coming out of a 5-year drought. Agriculture in this area is primarily subsistence, so much of the increased production will improve local food supplies rather than enter the export market. In the livestock sector, beef production is about level, with some herd rebuilding. Because of Brazil's austerity program and relative exchange rate differentials, beef exports are high, making Brazil South America's leading beef exporter. Poultry production and exports are still down.

Argentina Wheat Acreage Down

Planting time (May-July) for winter wheat is nearly over, and acreage is down for the second year following the record 1982/83 crop of 14.5 million tons. Next season's crop is forecast at 10.5 million tons, the lowest since 1977. Wheat prices are low relative to corn, and wheat seeding was delayed by dry weather in northern Buenos Aires province and rains in southern Buenos Aires. Lower wheat acreage may result in more corn and early crop soybeans in the north, and more sunflower acreage in the south.

Argentina harvested a record 6-million-ton soybean crop April 1984, mostly because of higher yields. Corn and sorghum production, harvested beginning in March, was up slightly from last year, to 17.1 million tons. Projections for next season's output include 5.8 million tons of soybeans and 17 million of corn and sorghum. Beef production and exports are down this year. The retention of cattle for herd rebuilding will cut available exports; beef exports will be their lowest since 1975.

Andean Region To See Improvement

The Andean region is experiencing a comeback in farm production. Bolivia, Ecuador, and Peru are rebounding from last year's El Nino disaster. Potato and corn production are expected to increase considerably after being hard hit last year. Wheat is just being planted, and Chile, the principal wheat producer in the Andean region, is increasing its wheat area in an attempt to trim imports. Rice production is also higher, with Bolivia and Peru harvesting record crops. Colombia and Ecuador are continuing their rapid expansion of palm oil. Export crops like coffee, sugar, cocoa beans, and bananas are expected to improve from last year. Chile is continuing an expansion program in deciduous fruit and grapes. Beef, pork, and poultry are showing no real change. Venezuela's agricultural output is also improving in 1984, particularly for rice, corn, and poultry.

Central American and Caribbean Output Up

Central America is also having a good year, mostly due to favorable weather. Corn and sorghum crops are good throughout the region. El Salvador, Costa Rica, and Honduras are expecting a large sugarcane harvest this fall, and Costa Rica and Guatemala are forecasting a larger coffee harvest in March. Central American beef production and exports are down, due to the lower carrying capacity of pastures.

In the Caribbean, agricultural output may increase nearly 5 percent this year, mostly due to favorable weather. Throughout the islands, the spring sugarcane harvest was generally larger than a year ago, despite a continuing slump in prices. Production of fruit, vegetables, citrus, bananas, and coffee is also expected to be up. The poultry industry, based on imported day-old chicks, feed grains, and oilseed meal, is holding its own despite the region's fiscal difficulties. Some of the feed grain imports, however, are financed by P.L.-480. African swine fever (ASF) has affected pork production in recent years. The Dominican Republic has completed its ASF eradication program and is rebuilding breeding herds, while Haiti is still liquidating infected hogs.

U.S. Agricultural Exports To Slip

U.S. agricultural exports to Latin America are forecast to reach $5.2 billion in FY 84, with some decline in FY 85 because of the falloff in world prices for basic commodities. The optimistic outturn for Latin America's agricultural production will also be a factor in reduced U.S. exports. Nevertheless, Latin America will still be a $5-billion market next year. Some countries will continue to require grains and oilseed products to meet basic food needs. Positive demand factors, such as economic recovery and continuing population growth, will be dampened by continuing large foreign debts. *[Chris Bolling (202) 447-8133]*

WORLD TRADE AND FOOD POLICY

Food Aid Programs

U.S. Aid to Drought-Hit Africa

On July 19, 1984, the CCC announced the sale of $89.4 million worth of grains to private exporters for resale to African countries recently hard hit by severe drought. As originally announced May 18, this food aid program is designed to combat hunger in designated countries by releasing up to $90 million of CCC grain stocks to private traders through competitive bids. This CCC sale is authorized under P.L. 98-248, signed into law March 30, 1984.

Initially the countries eligible were Angola, Benin, Botswana, Cape Verde, Central African Republic, Chad, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Lesotho, Mali, Mauritania, Mozambique, Nigeria, Sao Tome, Senegal, Somalia, Swaziland, Tanzania, Togo, Upper Volta, Zambia, and Zimbabwe, as announced June 15, 1984. Subsequently 7 countries were added: Burundi, Djibouti, Kenya, Madagascar, Rwanda, Sudan, and Zaire, raising the number of eligible countries to 32.

Private exporters bid for CCC grain in store at the warehouse and will pay any processing costs plus the cost of transportation to the importing country. The commodity awards totaled 142,509 tons of wheat ($18,932,889); 386,750 of corn ($36,571,120); and 193,374 of rough rice ($34,403,452), all based on CCC acquisition cost. Unit prices based on these figures are $132.85 a ton for wheat, $94.56 for corn, and $177.91 for rough rice. Rough rice will be milled in the United States before shipment.

African countries buying milled rice through this program are Benin (32,000 tons), Djibouti (3,000), Guinea (12,500), Mali (70,000), and Upper Volta (15,000), with Nigeria receiving the wheat and corn shipments. U.S. flag vessels will ship 50 percent of the commodities sold under this bid program.

Safeguards have been established to ensure that these commodities will be used in these countries, and not transshipped. Recipient country governments have agreed that these purchases will be in addition to their normal commercial purchases, as well as to their existing food aid commitments.

U.S. Food Aid Initiative

A U.S. food aid initiative was announced b President Reagan July 10 during a ceremony commemorating the 30th anniversary of U.S. food aid under P.L. 480. The initiative is designed to help deliver food more quickly and smoothly to those suffering from famine.

The five-point initiative includes:

1. Prepositioning grain in selected third world areas;
2. Creating a special $50-million presidential fund to allow a more flexible U.S. response to severe food emergencies;
3. Financing or paying ocean and inland transportation costs associated with U.S. food aid in special emergency cases;
4. Creating a Government task force to provide better forecasts of food shortages and needs; and
5. Establishing an advisory group of business leaders to share information on third world hunger and food production.

The President will propose legislation shortly for those recommendations that require additional authority or congressional approval. This initiative is in response to the President's request in December 1983 for a high-level interagency study of worldwide hunger.

Trade Agreements

U.S.-Jamaica Bauxite Barter Renegotiated

On June 28, 1984, the USDA and Jamaica's Bauxite/Alumina Trading Company (BATCO) amended the existing barter agreement. The amendment will adjust the commodities supplied by the United States under the agreement, substituting 55,000 tons of wheat for reduced quantities of nonfat dry milk and butter oil. The original agreement exchanges 1 million dry long tons of Jamaican bauxite for various U.S. dairy products.

The amendment will permit accelerated delivery of U.S. commodities, with dairy deliveries to be completed in 1985 rather than continuing into 1986 as originally agreed, and all wheat to be delivered by the end of February 1985. The accelerated delivery will allow the Jamaican Government to realize revenues worth $5 million during its current fiscal year ending March 31, 1985, to help meet budget targets set under a stabilization plan agreed with the IMF. *[Edward C. Wilson (202) 447-8470]*

Recent CAP Changes: Will They Reduce Subsidized Exports?

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Abstract: Faced with a budget crisis and mounting agricultural surpluses, the European Community (EC) has modified its Common Agricultural Policy. More restrictive price increases for 1984/85 and milk delivery quotas are meaningful actions to control surpluses and costs. Increased funding, however, will allow continued expansion of subsidized EC exports while proposals to restrict various imports would benefit the EC budget at the expense of third countries. Recent changes are not likely to affect the EC's overall production or surpluses of most agriculturai products.

Keywords: European Community, commodity prices, agricultural policy, agricultural surpluses, dairy policy, agricultural budgets.

During spring 1984, the European Community (EC) acted on several problems that have plagued its agricultural sector in recent years. The problems have arisen largely because high and steadily rising farm prices, regardless of market conditions, have stimulated rapid expansion of production. Surpluses have burgeoned and Common Agricultural Policy (CAP) costs have risen much faster than EC finances, precipitating a budget crises. Recent EC actions to resolve these and other problems have implications for EC and world agricultural markets.

High Prices Stimulate Production

The CAP relies on a complex system of price management to achieve most of its objectives; stable farm incomes at satisfactory levels has been the paramount concern. Each spring, the EC fixes target prices and intervention (support) and threshold (minimum import) prices for CAP products.

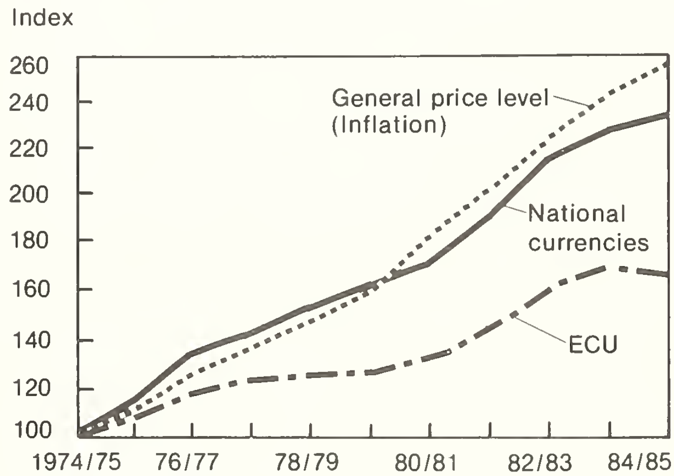
EC support prices are higher than in most major producing countries and have climbed steadily since the beginning of the CAP. Overall, support-price increases have almost kept pace with inflation, while world agricultural prices have declined more rapidly in real terms, reflecting worldwide increases in productivity. EC farmers have become accustomed to annual price increases, regardless of EC or world market conditions.

The guarantee of high and steadily rising farm prices has stimulated strong growth in output, nearly 2 percent a year for the last 2 decades, much faster than growth in consumption. Self-sufficiency (production/consumption) has increased for most products and the EC has become a net exporter of many commodities. Clearly, the EC price system has been much less effective in regulating production than in supporting farm incomes.

In European Currency Units (ECU's), producer prices for all agricultural commodities have risen an average of 5.2 percent a year since 1974. In the national currencies farmers actually receive, prices grew at 9 percent, while inflation in the EC averaged 9.9 percent. Prices increased 9.2, 10.4, and 4.2 percent in 1981, 1982, and 1983, respectively.

In response to the budget crisis and other political pressures, the EC reduced prices for a broad range of commodities for the first time for 1984/85, at least in terms of ECU's. ECU prices for soft wheat, barley, corn, olive oil, sunflowerseed, flax, beef, pork, and sheep meat were reduced 1 percent. Prices of durum wheat, rye, and

Support Prices Dip 0.5 Percent in ECU's, But Rise in National Currencies to Farmers



EC support prices[1]

Commodity	1981/82	1982/83	1983/84	1984/85	
	Percent change from previous year				*ECU/MT*
Soft wheat	6.0	8.5	3.0	−1.0	183
Bread wheat	7.5	8.5	3.0	−1.0	213
Corn and barley	6.0	8.5	3.0	−1.0	183
Rice	11.0	12.0	5.5	2.5	314
Sugar beets	8.5	9.5	4.0	0	41
White sugar	8.5	9.5	4.0	0	535
Rapeseed	8.0	8.5	4.0	−1.0	429
Sunflowerseed	10.0	14.0	6.0	−1.0	533
Soybeans	7.6	11.5	6.5	1.5	502
Cotton	NA	13.0	8.0	1.5	894
Milk target price	9.0	10.5	2.3	−1.0	279
Butter	9.0	10.0	2.3	−10.8	3,197
Nonfat dried milk	9.0	10.4	2.3	10.9	1,658
Beef & veal	10.0	8.5	5.5	−1.0	1,845
Pork	11.0	10.5	5.5	−1.0	2,033
Sheep meat	7.5	10.5	5.5	−1.0	4,280
Average increase					
ECU's	9.2	10.4	4.2	−.5	
Nat'l currencies	10.9	12.2	6.9	3.3	
Exchange rate[2]					
US$/ECU	1.18	1.00	.93	.85	

NA = not available. [1]Generally intervention prices or target prices tied to intervention mechanisms. [2]Exchange rate in April, typically when prices are fixed for the coming marketing year.

sugar were unchanged. Rice and cotton prices were raised 2.5 and 1.5 percent, respectively. A 10.8-percent decrease in the intervention price for butter—designed to stimulate consumption—was offset by a 10.9-percent increase in the nonfat dry milk price. Intervention prices, on average, were reduced 0.5 percent.

Agrimonetary Changes Boost Prices

The reduction in 1984/85 prices is largely illusory. In national currencies, prices increased an average of about 3.3 percent. Although these price changes amount to a decline in real prices because they are less than inflation is expected to be, they are not nearly as restrictive as initially perceived. Increases in prices in national currencies resulted because of changes in the EC's agrimonetary system.

EC prices are fixed in ECU's and are then translated into national currencies by special "green rates." A country's prices diverge from the theoretical common level when the country's green rate is not adjusted fully to reflect appreciation or depreciation of the country's currency relative to the ECU. Since 1969, most EC countries have maintained agricultural prices above or below the theoretical common level. Independently of any change in ECU prices, green rate changes may move national prices toward the common level. These changes increase national prices far more commonly than they reduce them and often have more impact on national prices than do ECU price changes.

For 1984/85, national currency prices were strongly affected by the creation of a special "green" ECU for the CAP that is 3.3 percent more valuable in terms of each national currency. So, although ECU prices were decreased an average of 0.5 percent, theoretical common prices in each national currency were increased almost 3 percent. Countries already well above the common level suddenly were less above it, but their national currency prices could not be raised because of the green ECU's higher value. Prices fell 0.5 percent in Germany, the Netherlands, and the U.K. Other countries suddenly were farther below the common price because of the green ECU and could increase national currency prices 3 percent. Some countries further augmented national prices by closing gaps between their prices and theoretical common prices that existed before the recent changes.

As part of a scheme to ensure that national prices are never above the common level, German prices will be reduced 5 percent and Dutch prices will be reduced less than 1 percent in January 1985. Dutch and German prices will again be reduced 2 to 3 percent for 1987/88. Germany will compensate its farmers for the lower prices by adjustments in the Value Added Tax (VAT) that will allow them to retain a 5-percent surcharge on sales without increasing consumer prices. Dutch farmers may also receive compensation. Compensation will boost effective farm prices, further contradicting the illusory official EC price decrease.

Efforts To Manage Surpluses

The EC Commission continues to propose to narrow the gap between EC grain prices and world prices. Lower grain prices would increase EC consumption and decrease production somewhat, reducing EC grain surpluses and exports. The EC Council of Agricultural Ministers has never accepted such proposals, however, and appears unlikely to do so. In times of declining world prices, the EC has not lowered its prices. The gap between EC and world prices has narrowed recently, but only because of strong appreciation of the U.S. dollar against the ECU. Other EC Commission proposals for modifications of EC grain policy would restrict EC imports of nongrain feeds, but would not greatly reduce the growth in EC grain surpluses.

The EC took substantive action for its dairy sector, which long has been the CAP's most expensive problem. Milk delivery quotas were fixed for 5 years. Excess deliveries will be subject to a levy of 75 percent of the target price. For 1984/85, the quota is 99.6 million tons, about 4 million less than 1983/84 deliveries. For the next 4 years, the quota is 98.4 million tons. Although quotas have long been set for sugar production, dairy quotas are a sharp break with basic CAP principles. Because disposal outlets for the EC's mounting dairy surplus have been nearly exhausted in recent years, the EC had few real alternatives. Even with quotas, the EC will still produce large dairy surpluses and dominate world markets.

Budget Crises May Degrade CAP Support

The EC has arranged for additional funding, but not until 1986. The Commission forecasts that normal operation of the CAP will result in shortages of 2.3 billion ECU in 1984 and 1.9 billion in 1985, and these are unlikely to be met fully. Increased funding still formally requires "financial guidelines" acceptable to Germany and the U.K. to control costs. Some CAP payments already have been delayed administratively since late 1983; further spending delays, transferring costs to a later budget year, and some real reductions in CAP expenditures will be unavoidable.

Price increases for 1984/85 will be restricted. If spending is reduced significantly, export subsidies and some intervention payments will be reduced, suppressing EC prices and exports. Intervention stocks would rise at the expense of national governments. Administrative changes already have reduced agricultural support. For example, the limitation of intervention in bread wheat to only 3 million tons significantly increased EC market supplies and depressed EC wheat prices last year and is to be repeated in 1984/85.

More Funds May Encourage Higher Prices

EC revenues are to be increased 5 to 6 billion ECU's, about 20 percent, beginning in January 1986. The percentage of each country's common VAT base, which automatically may become EC revenue, will be increased from 1.0 to 1.4. All national parliaments still must consent, and approval, while likely, is not certain. Whenever the funding becomes available, the EC Council will be freer to increase prices to bolster real farm incomes, which declined seriously in 1983.

Exchange rate movements probably will result in an increase in the green ECU's value at least once a year, further encouraging higher national prices since smaller ECU price increases are then required for any increase in national prices. The highest price level, normally the German price, also will be the common price, which all countries may maintain. Ireland, the Netherlands, and Denmark, as large net agricultural exporters, are certain to opt for the highest prices. Countries such as France and Italy, which often have maintained somewhat lower prices, will appear more "out of line" than previously, and will be under greater pressure from farmers to raise prices.

The potential for larger price increases from the recent increase in EC resources may be brief. Despite recent actions, the EC's problems have not been resolved. A large dairy surplus will remain, in spite of quotas, and effective controls on other surpluses have not even been proposed. CAP spending continues to increase. Declining imports are reducing EC revenues from import levies and new expenditures for British rebates and Spanish and Portuguese membership will quickly deplete available resources. Many expect EC resources to become inadequate again by as early as 1988.

High Prices and Surpluses To Continue

The rate of EC price increases will continue to depend on the balance between farm income needs and concern about CAP costs. The U.K. has been the foremost proponent of restricting price increases, but the large rebates that have been arranged to reduce its net contribution to the EC budget may dampen its interest in price restraint. Germany has been the largest contributor to the EC budget and has complained about CAP costs, but Germany also has strongly favored high prices. France, on the other hand, may become more concerned about costs since permanent British rebates and enlargement are likely to make France a significant net budget contributor.

Despite a political environment relatively conducive to price restraint because of the budget crisis, the 1984/85 EC price increases were not severely restrictive. Instead, additional funding was arranged. It is unlikely that future price increases will be any more restrained. Indeed, the green ECU implies less restraint. A continuation of the policy of high and rising prices will further stimulate EC agricultural production and exports.

Given the political strength of EC farmers, some compensation will likely accompany any price moderation, as in Germany. Since this compensation is related to output, it maintains producer incentives, stimulating exports or reducing imports, and makes reduced price increases rather meaningless.

Except for dairy quotas, the Commission's proposals for dealing with the budget crisis generally have involved only the restriction of EC imports. Real control of EC surpluses is likely only if disposal opportunities are diminishing and costs are rising rapidly, as was the case in the EC dairy sector. The further extension of production controls with continued high prices is the most probable solution. *[Gene Hasha (202) 447-6809 and Ron Trostle (202) 447-8289]*

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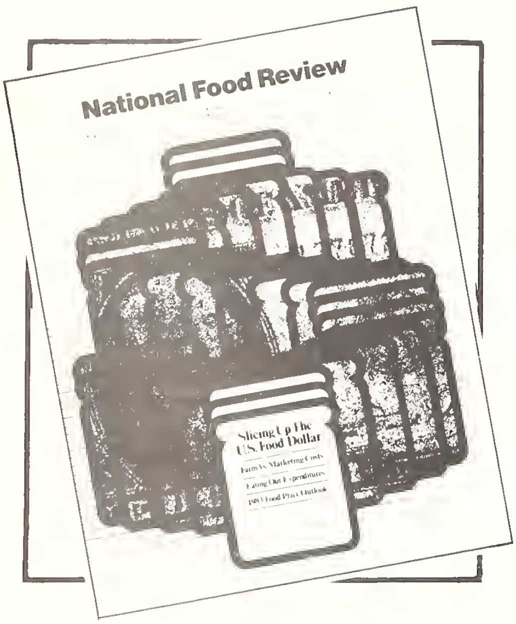

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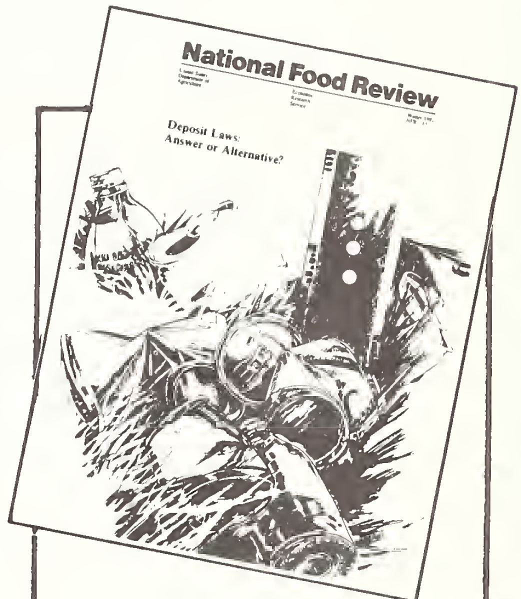

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